

# Public Utilities

FOR MONTHLY

Volume XLIX No. 5



February 28, 1952

## THE NATION'S CRITICAL POWER SUPPLY

*By The Honorable Oscar L. Chapman*

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## Metropolitan Basis for Transit Planning

*By William Reid*

« »

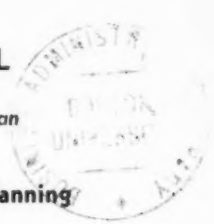
## Federal Commissions—How Much Independence? Part II.

*By C. S. Hyneman*

« »

## Pie in the Sky over Niagara Part II.

*By George W. Keith*



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# Public Utilities

## FORTNIGHTLY

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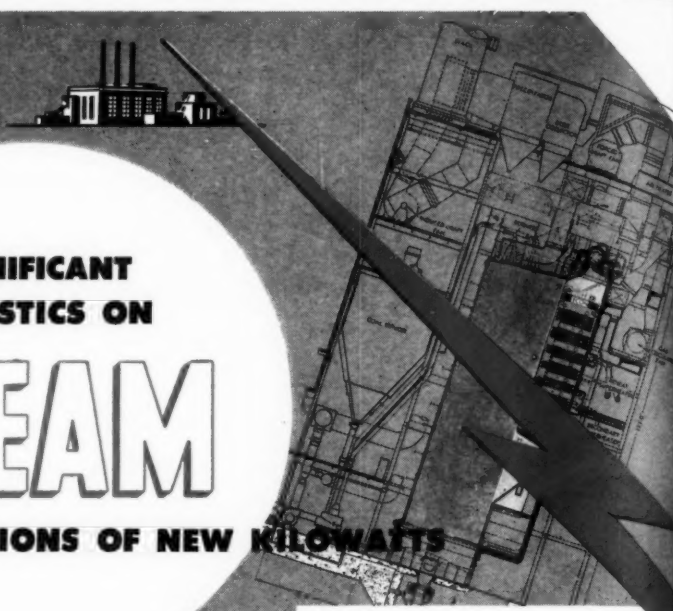
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 stands for Federal and state regulation of both privately owned and operated utilities and publicly owned and operated utilities, on a fair and nondiscriminatory basis; for nondiscriminatory administration of laws; for equitable and nondiscriminatory regulation; and, in general—for the perpetuation of the free enterprise system. It is an open forum for the free expression of opinion concerning public utility regulation and allied topics. It is supported by subscription and advertising revenue; it is not the mouthpiece of any group or faction; it is not under the editorial supervision of, nor does it bear the endorsement of, any organization or association. The editors do not assume responsibility for the opinions expressed by its contributors.

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# STEAM

**FOR MILLIONS OF NEW KILOWATTS**

## CYCLONE FURNACES

At the close of 1951, B&W's revolutionary method of coal-firing had been applied to boilers with steam capacities ranging from 65,000 to 1,200,000 lb. per hr.; design pressures to 2125 psi; and steam temperatures to 1050F. Reheat, pressurized furnaces, and gas recirculation were other features in many of these units. Fuels include Illinois and West Virginia coals, lignite, oil and gas. Total steam capacity of all Cyclone Furnace boilers in service and on order is over **19,000,000** lb. per hr.

## HIGH PRESSURES

Since 1926, when central station boiler design pressures entered the now widely specified range over 1400 psi, B&W has been "headquarters" for high-pressure units. At the end of 1951, nearly 300 B&W natural-circulation units designed for pressures between 1400 and 2700 psi with temperatures up to 1100F, and including the world's largest boilers, were in service or on order. In the field over 2000 psi, more than 50 B&W units have been ordered since 1937, and 12 of them are in full-scale operation with outstanding performance records.

Power companies have taken advantage of this unique experience in the range over 1400 psi for an aggregate high-pressure steam-generating capacity of **187,000,000** lb. per hr.

## PRESSURE FIRING

Steadily-growing demand for this advanced principle of boiler furnace operation reflects the confidence of power companies in its demonstrated advantages of higher boiler efficiency, lower auxiliary power, and other significant economies. More than a score of power companies now have in service or on order over 75 B & W Pressure-fired units with a total steam capacity of

**51,910,000**  
lb. per hr.

## GAS RECIRCULATION

Applications of the B & W methods of gas recirculation for superheat and reheat temperature control almost doubled during 1951. Over 75 units employing this feature are in service or on order, with capacities ranging up to 1,370,000 lb. per hr., and with all types of firing. Total steam capacity of all units having gas recirculation is

**75,000,000**  
nearly lb. per hr.

## REHEAT

New B & W reheat boilers ordered during 1951 raised the total steam-generating capacity of B & W reheat units in service, under construction, and on order to over

**95,000,000**  
lb. per hr.

## NEW UNITS IN SERVICE

During 1951, power companies placed orders for B & W boilers aggregating over 60,000,000 lb. per hr. of steam-generating capacity. In the same period, B & W central station units totalling 28,000,000 lb. per hr. were placed in service. The unique experience and advanced steam technology reflected in these and other statistics presented on these pages are good reasons why you will want to draw on B & W's vast wealth of research and engineering know-how whenever you are considering additional power generating facilities. Its broad and diversified base assures you the most considerate and unbiased approach to your specific requirements—an approach essential to the most efficient and economical solution of any modern power problem.



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## Pages with the Editors

THERE is increasing evidence that Congress is becoming sensitive to the warnings about our nation's critical power supply, in bearing the double burden of defense mobilization, as well as peacetime industrial expansion. Recently, the Joint Committee on Defense Production—more popularly known as the watchdog committee—released a report. It showed, among other things, that the electric utility industry needs more careful consideration from emergency control officials if it is to carry this burden efficiently, and successfully, through the difficult months immediately ahead.

THE committee report also recommended that special consideration be given material requirements for expanding new and existing electric plant facilities by the Office of Defense Mobilization. The newspapers fell into the usual temptation of sticking a colorful label on this recommendation, calling it a plea for a "power czar." But actually it amounted to little more than a sensible request for elimination of bottlenecks and getting prompt action on the delivery of stuff required to make more electric power where it is most needed. Other recom-

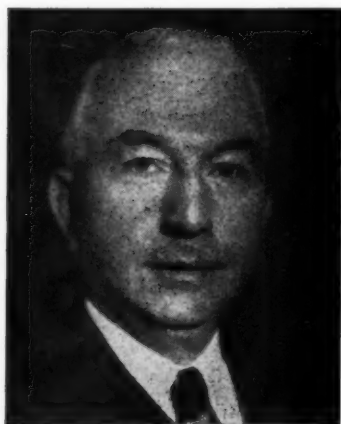


GEORGE W. KEITH

mendations such as the national daylight saving time, wider system interconnection, etc., were supplemental proposals to the same end.

IF the newspaper reporters had looked behind, and beyond, the joint congressional committee report, they would have found that these recommendations for the most part were neither new nor especially surprising. The Defense Electric Power Administration, operating under the Interior Department, for many months had been collecting factual information pointing to similar conclusions. More recently, a special committee of the Defense Production Authority, headed by Edward W. Morehouse, a private utility company executive, had made a similar survey with surprisingly similar results.

BUT no one in high government circles has labored longer or more effectively in his effort to alert Congress to the consequences of piling greater demands on the electric power industry than the head of the department under which the Defense Electric Power Administration operates. OSCAR L. CHAPMAN, Secretary of Interior, has prepared



WILLIAM REID

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the leading article in this issue, analyzing and explaining the importance of these two reports on our national power supply. For many years, Mr. CHAPMAN has been an advocate of bigger power production and bigger margins of national power reserves over our growing national electric power demands.

BORN in Omega, Virginia, in 1896, Mr. CHAPMAN received his college education at Randolph-Macon Academy, Bedford, Virginia, the University of Denver, and the University of New Mexico—interrupted by two years of enlisted duty with the U. S. Navy, mostly overseas. He received his law degree (LLB) from Westminster Law School at Denver in 1929 and was admitted to the Colorado bar the same year. He has been a career officer within the Interior Department virtually since that time. He was appointed Assistant Secretary in 1933 and served continuously in that post through all the Franklin D. Roosevelt administrations. President Truman appointed him to his Cabinet as Secretary of Interior in 1949.

\* \* \* \*

WILLIAM REID, whose article on a "Metropolitan Basis for Transit Planning" begins on page 273, was connected for many years with the financial department of the city of New York, dealing with the city's relationship with the subway system, which eventually

included acquisition of the old Interboro and BMT. In 1945, he was appointed a member of the New York City Board of Transportation by Mayor LaGuardia. Two years later, Mayor O'Dwyer appointed him chairman of that board, and in 1950 he was made deputy mayor of the city. It was in October, 1950, that Mr. REID took over the presidency of the Hudson & Manhattan Railroad Company, his present post. He has never been actually identified with political matters, having started with the city as a civil service employee in 1913.

\* \* \* \*

WE conclude in this issue the two double instalment feature articles which began in our last. Beginning on page 279 is Part II of the article on the independence of Federal commissions by PROFESSOR C. S. HYNEMAN. In this second instalment, PROFESSOR HYNEMAN goes into the matter of organization and possible reform of the Federal regulatory commission setup. PROFESSOR HYNEMAN is now teaching political science at Northwestern University and previously taught that subject at Syracuse University, the University of Illinois, and Louisiana State.

\* \* \* \*


BEGINNING on page 290 is the second part of the article by GEORGE W. KEITH on the proposed Niagara power development and the three different bills on that subject now pending before Congress. In this second half of his Niagara power project study, Mr. KEITH discusses the attitude of the various Federal agencies, including the Interior Department, the Army Engineers, and Federal Power Commission. He also takes up the editorial reaction of the local press in New York state, and finally the attitude of organized labor, including the CIO and AFL unions especially concerned with representing electric utility employees.

THE next number of this magazine will be out March 13th.



C. S. HYNEMAN

FEB. 28, 1952

 *The Editors*

# 6

## ways we can help you cut costs . . .



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eliminate peak loads in Reading and the subsequent Accounting Operations with the assistance of the trained staff from our Business Services departments.



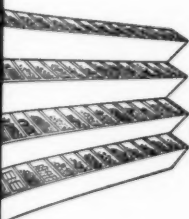
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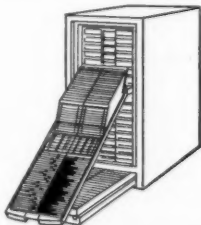
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large and small utilities throughout the country. If you would like to talk with one of our representatives about cost-cutting, please phone your local Remington Rand office. Or write: Box 1673, 315 Fourth Avenue, New York 10, N. Y.

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# Coming IN THE NEXT ISSUE



## THE EMPLOYEE HAS A RIGHT TO KNOW!

Giving the utility employee a fair and clear picture of how the business works—of who gets how much for what and why—is not a question of selling anything. On the contrary, it is buying something. It means buying intelligent and willing co-operation from those who have a right to expect that management will tell them what they ought to know. And like most everything that is bought these days, it costs money, demands attention and persistent planning. Francis X. Welch, managing editor of PUBLIC UTILITIES FORTNIGHTLY, has made an analysis of the approach and organization of an employee economic training program now being used by one of the largest utility organizations in the country.

## THIS COMPANY MUST BE READY

This is the story of defense preparations being taken by the New York Telephone Company and it will doubtless be of interest and value to other utility people and regulatory authorities, as well as persons involved in civil defense activities. It is written by the company's assistant vice president, F. R. Schlieper. Perhaps too many of us have reached the point of indifference to civil defense—taking the fatalistic view that either no bombs will be dropped in our territory or, if they are—"what's the use." The public utility obligation actually forbids this attitude.

## SCHOOL DAYS AGAIN FOR UTILITY MEN

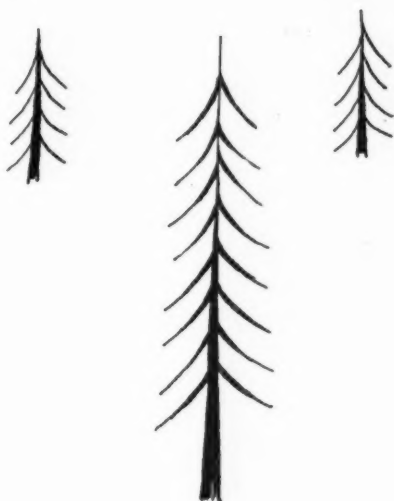
George S. Benson, president of Harding College, used to be a religious missionary to China until he found out that his teachings were needed at home, especially among American businessmen. Through his Freedom Forums, Dr. Benson is waking up American businessmen, and utility people, among others, are finding them an inspirational source for sound public relations thinking and doing. James H. Collins, California business writer and editor, tells us about this unique "home mission."

## THE UTILITY'S RÔLE AS THE COMMUNITY'S MASTER BUILDER

If we read all of the claims made for different regions as to benefits for industrial location, they might seem to cancel one another. But it is still good business and public relations for a utility to take a leading rôle in promoting its home town or area. J. Louis Donnelly, of the staff of the New York Journal of Commerce, has written an article which skips around the country, showing what various large utility groups are doing to improve the industrial position of their respective service areas.



**Also . . .** Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.



## How high is a tree?

**T**HERE'S a vast difference between the height of a redwood and a red maple.

Or between an elm and a dogwood.

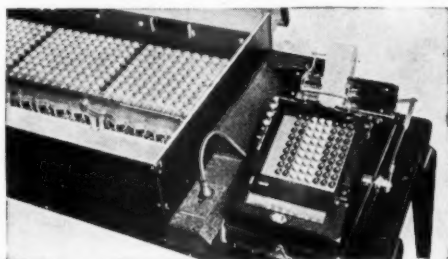
Trees come in a wide range of sizes, and so do customers' bills.

### Mighty helpful data

In planning rate and promotional programs, therefore, it's mighty helpful to know just how your customers' bills fall into various kilowatt-hour rate blocks.

The Recording and Statistical Corporation will do such analyses for you at moderate cost on its specially designed Bill Frequency Analyzer. It processes as many as 200,000 bills a day, and the cost to you is far less than the expense of having the bills analyzed by clerks in your own offices.

We'll gladly send you the complete facts about this accurate and economical method of compiling usage data. Just write for "The One Step Method of Bill Analysis."



This Bill Frequency Analyzer—developed especially for utility usage data—automatically classifies and adds in 300 registers—in one step!

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# Remarkable Remarks

*"There never was in the world two opinions alike."*

—MONTAIGNE

GEORGE CLINE SMITH  
*Official, Chamber of Commerce  
of the United States.*

"One of the great delusions of our time [is] the idea that Federal money can work magic."

DONALD D. CONN  
*Executive vice president, Transportation Association of America.*

"[American transportation was] far nearer socialization in 1951 than was British transport in 1941."

HARRY FLOOD BYRD  
*U. S. Senator from Virginia.*

"If I had the power I would make a 10 per cent reduction in all [Federal] administration expenses, to start with."

LEWIS HANEY  
*Professor of economics, New York University.*

"All forms of social planning, from Fascism in Italy and Communism in Russia to Socialism in England and the New Deal in America, have now demonstrated their futility or their brutality. They have either gone bankrupt or have turned into armed camps. This means that 'Collectivism' stands exposed as a failure."

LEWIS W. DOUGLAS  
*Former Ambassador to Great Britain.*

"In the speed with which we are attempting to restore the military strength which so many people were so anxious in 1945 that we dissipate, may we not be running the risk of permanently modifying the very foundation of our society and thereby destroying or impairing the sources from which our strength is derived?"

THOMAS E. DEWEY  
*Governor of New York.*

"One fact has clearly emerged. Our opposition has been revealed for what it really is—a stubborn scheme on the part of a group of empire builders in the Department of the Interior to prevent the development of hydroelectric resources by the northeastern states and to impose a Federal power network on our section of the country."

EDWARD F. ARN  
*Governor of Kansas.*

"[It] is shocking to realize that we have reached a point here in free America where state and Federal agencies appear to be competing with one another for the right to regulate a free competitive industry. We must continue at the state level to provide intelligent regulatory leadership so that interference from Federal agencies will not be warranted. Unwarranted interference must be challenged by every legal means."



The business outlook is generally conceded to be good. However, we as citizens have much to be concerned about—and yet it is a year of opportunity in which we have the privilege and power to determine a bright and more stable future.

Since every little thing, contributing to more pleasant and harmonious business relations during 1952, is worthwhile—why not make a resolution to use or specify—

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## REMARKABLE REMARKS—(Continued)

ROBERT A. TAFT  
U. S. Senator from Ohio.

*Excerpt from advertisement,  
Bankers Trust Company,  
New York.*

M. S. RUKEYSER  
Columnist.

*Excerpt from The New England  
Letter, published by the First  
National Bank of Boston.*

JOSEPH M. DODGE  
President, The Detroit Bank.

WILLIAM A. RECKMAN  
President, Western Bank & Trust  
Company, Cincinnati, Ohio.

WILLIAM HENRY CHAMBERLIN  
Columnist.

"... if the government takes 30 per cent of our income, we have lost 30 per cent of our freedom to live as we desire to live."

"One of our country's greatest assets never appears on the U. S. Treasury's balance sheet—industrious men working together under a free business system."

"As a matter of fact, life, even among the productive leaders, is a matter of misses as well as hits. It is needlessly discouraging to the young to create the impression that successful men never falter or err."

"The American people should heed the 'red lights' flashing in the British Isles against the curse of collectivism, for when once it is entrenched there is no turning back, for like Great Britain, we would be trapped in the coils of government control. It behooves us, therefore, to soberly reflect on Great Britain's tragedy and to benefit from her bitter experience."

"Any way you figure it, the government cannot give financial assistance to anyone unless the money is first obtained from other people. The people who pay the taxes out of which government loans are made give up their own assets for the benefit of another. Their own credit positions or possibilities are reduced for redistribution to someone. They (the taxpayers) are being deprived of capital and the choice of its use. Capital is taken from one place and put in another."

"We have said again and again that it is our free way of life that gives us both spiritual and material superiority over Russia and Communism. Yet, when the crucial test between these two philosophies is imminent, we apparently feel compelled to adopt their system in order to prove that ours is best. We feel compelled to reject freedom and embrace the communist idea of a planned economy and a controlled people. Thus we surrender in the most vital battle, the battle of ideas, even before a shot is fired."

"Democracy is the creed of the western world in the twentieth century. It would be fantastic to think of returning to the system of government by small classes of the supposedly elite. But the best service a citizen of a democratic state can render is to recognize the weaknesses and dangers, as well as the positive sides of democracy and to seek appropriate remedies. For history shows that democracies have often perished or been transformed into caricatures of their original ideals by failure to check processes of deterioration that set in from within."

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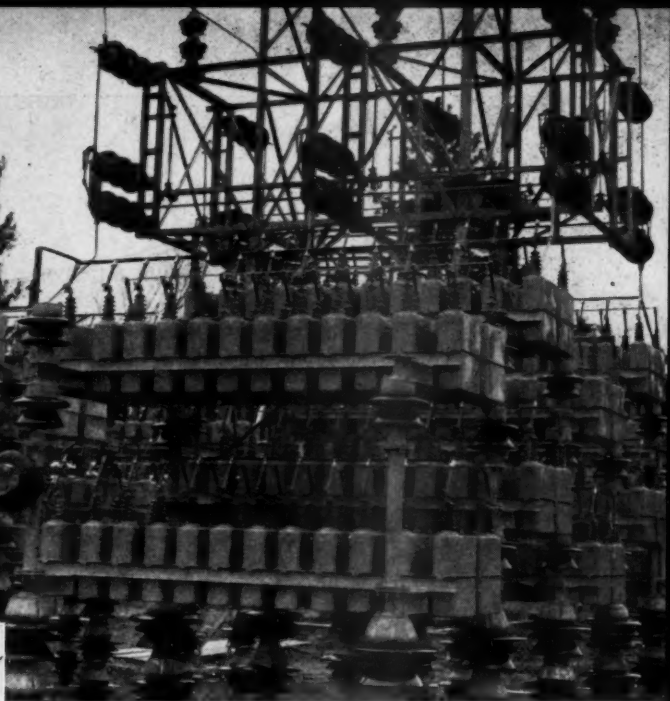
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**High-voltage capacitors** such as this 32,400-kvar, 124-kv installation, supply bulk kilovars—re-enforce subtransmission and transmission voltages—reduce thermal loading on substations and generators.

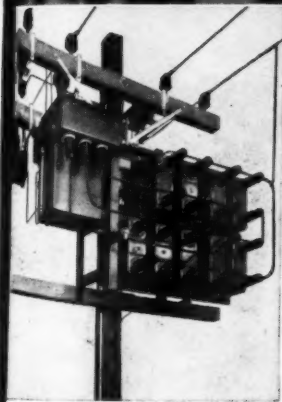
## System-wide use of G-E Capacitors holds key to new savings

Capacitors have long provided one of the fastest, cheapest ways to release system capacity. But today, as opposed to a few years ago, they can be used in more places—and in larger quantities. High-voltage banks, switched pole-type equipments, 240-volt units for secondaries all offer opportunities—which were not available even five years ago—for increasing system capacity while lowering investment per kw. By reducing system current for a given load, they usually free distribution, substation, transmission and generating facilities for the delivery of additional kilowatt load—at a fraction of the cost—and in a fraction of the time it would take to add new capacity.

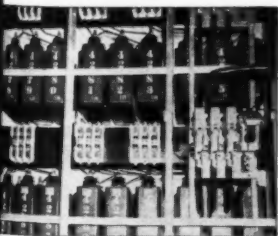
It may pay you to re-evaluate your system to see what proportion of your increased load can be economically supplied by capacitors. A General Electric specialist will be glad to work with you. Call your nearest G-E Sales Office or write *General Electric Company, Schenectady 5, N. Y.*

**GENERAL**  **ELECTRIC**

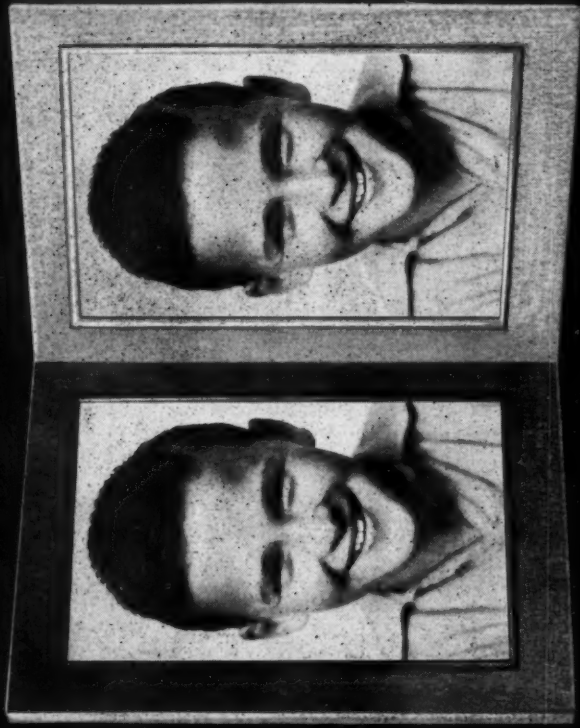
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**Switched-capacitors** such as this 225-kvar unit supplement fixed capacitors in raising voltage levels and reducing substation loading at peak conditions.

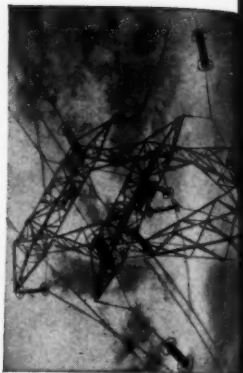
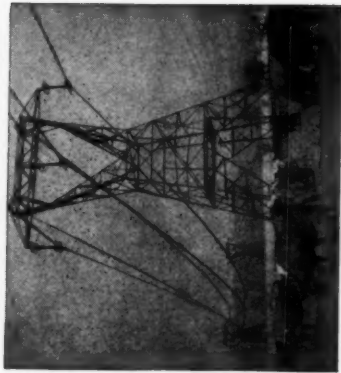
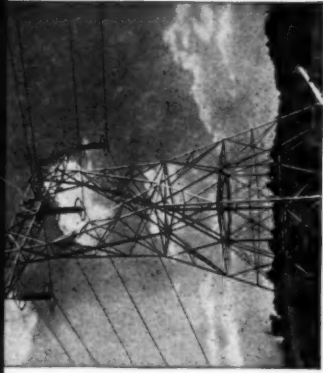


**Secondary-capacitors** on networks and residential secondaries help offset rising loads. They keep power factor up—permit heavier loading within permissible voltage limits.



## *Identical Twins?*

**"THERE AIN'T NO SUCH ANIMAL!"**



Twins are not even identical even to their

THERE AIN'T NO SUCH ANIMAL!

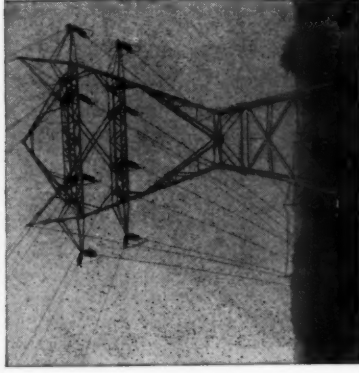
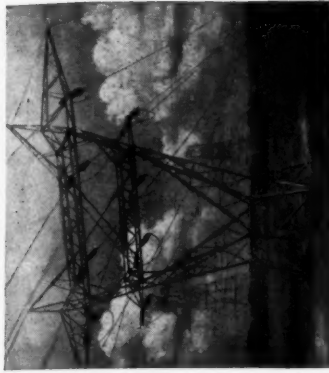
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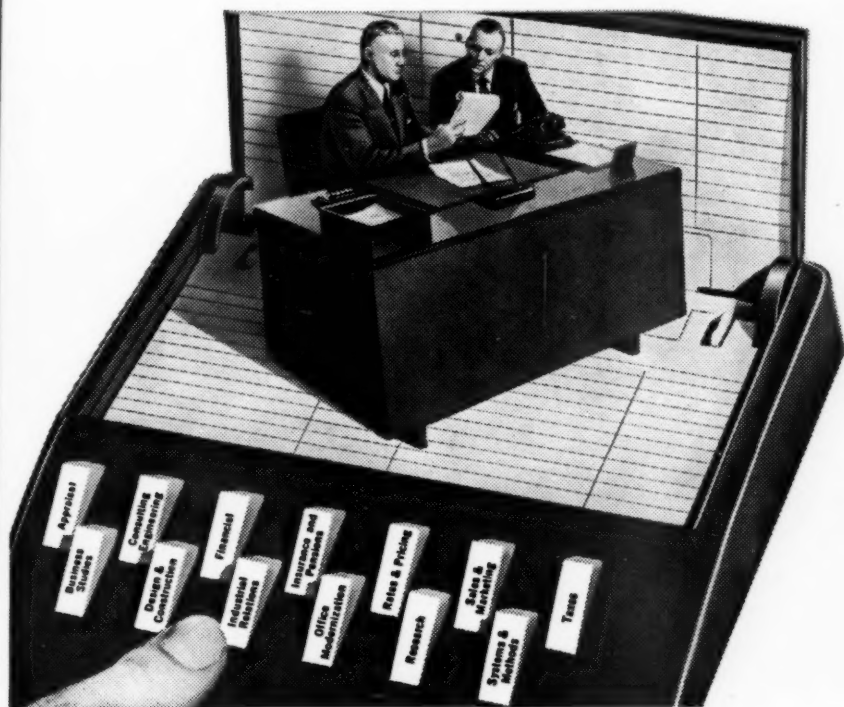
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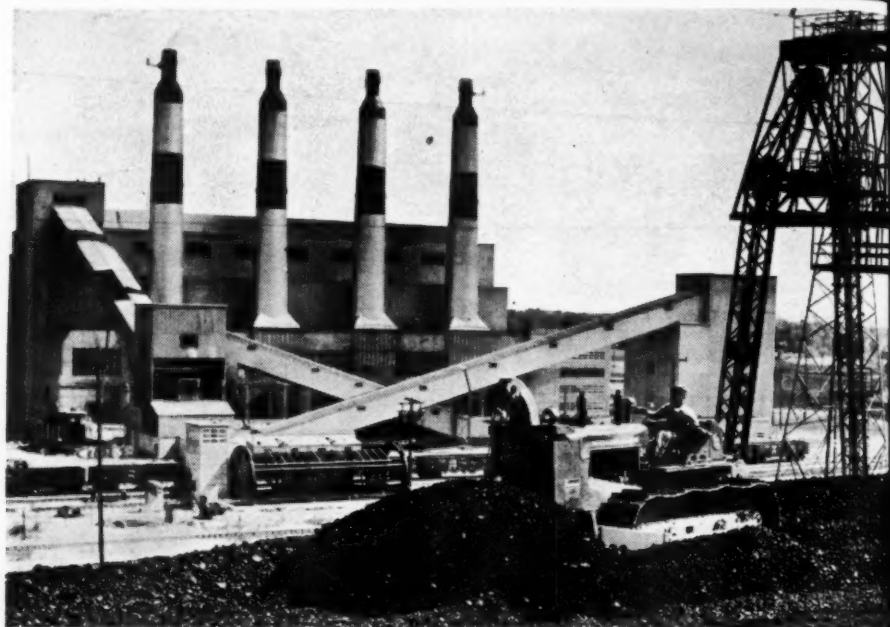
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So powerful—148 maximum drawbar horsepower—that big jobs are handled as fast as other crawlers do small ones. No wonder the TD-24 is the operators' pet.

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Keeping ahead of hungry hoppers is no trick with eight speeds forward, eight reverse, and positive reserve torque control to move overloads without stalling.

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International Harvester Company, Chicago 1, Illinois

## INTERNATIONAL

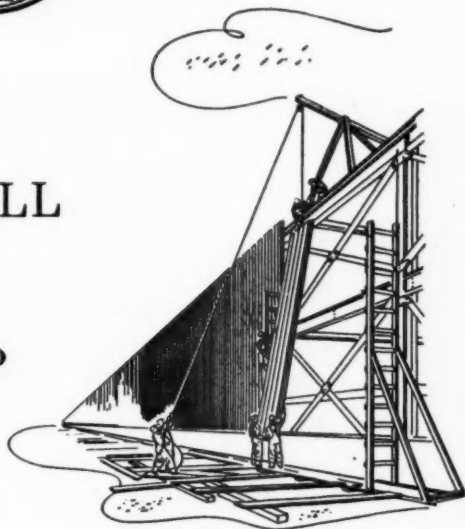


## POWER THAT PAYS

What we really make is Time



*It is faster to*  
**H**ANG A WALL  
*than to*  
**P**ILE IT UP



**L**ITTLE blocks, say 2'x4'x8', don't pile up very fast.

We hang walls up in sizable panels.

And that is an easy way to understand why Robertson's real product is *time*.

We make walls that are hung in place. We make them complete with insulation when the panels are delivered. We engineer them piece by piece in advance at the factory. We put expert crews on the job to place them.

We make time, now, when time is the essence.

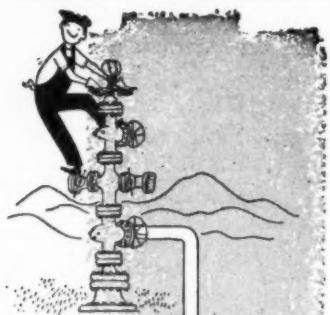
Point is, we integrate the right materials with exclusive designs and processes of manufacture, round them out with fast engineering for each individual job, install them with experienced crews, and deliver the thing that is most vital of all vital things today: *speed*.

We save days and weeks in finishing a building *for use*, because years have been put into the development of these unique skills.

*Quick* is the word we practice.

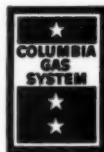
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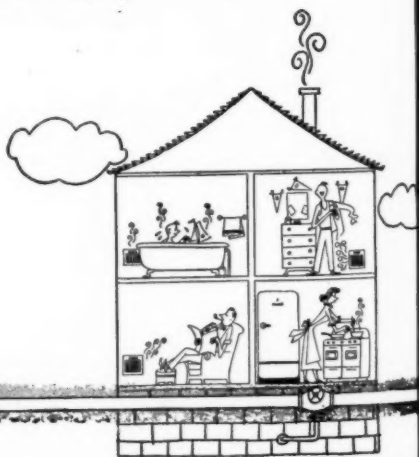


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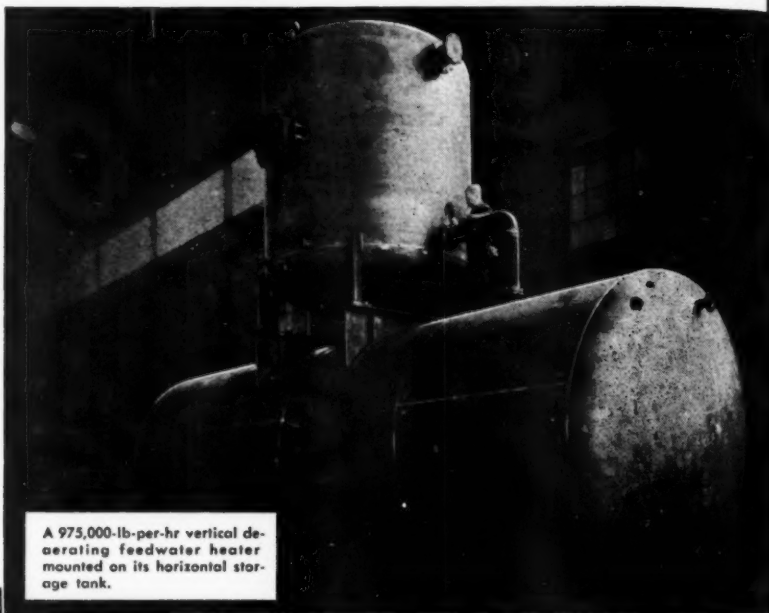
MARINE



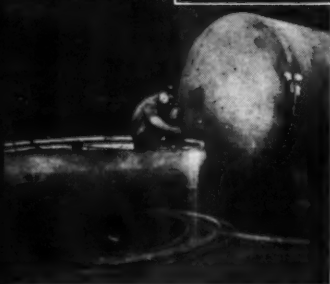
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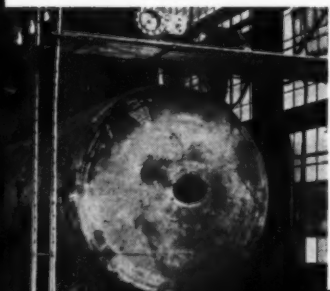


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## Utilities Almanack



FEBRUARY





28	T <sup>A</sup>	¶ <i>Pennsylvania Electric Association, Prime Movers-Electrical Equipment Committees, begins meeting, Philadelphia, Pa., 1952.</i>
29	F	¶ <i>Oregon State Broadcasters Association ends 2-day annual meeting, Eugene, Ore., 1952.</i>



MARCH



1	S <sup>a</sup>	¶ <i>Illuminating Engineering Society will hold South Pacific coast regional conference, San Francisco, Cal., Mar. 13, 14, 1952.</i>
2	S	¶ <i>Southeastern Electric Exchange, Engineering-Operation Section, will hold conference, New Orleans, La., Mar. 13, 14, 1952.</i>
3	M	¶ <i>American Society for Testing Materials begins spring meeting and committee week, Cleveland, Ohio, 1952.</i> 
4	T <sup>u</sup>	¶ <i>Kentucky Independent Telephone Association begins one-day annual convention, Lexington, Ky., 1952.</i>
5	W	¶ <i>Edison Electric Institute, Industrial Relations Committee, will hold meeting, Pittsburgh, Pa., Mar. 20, 1952.</i>
6	T <sup>A</sup>	¶ <i>Institute of Radio Engineers ends 4-day national convention, New York, N. Y., 1952.</i>
7	F	¶ <i>American Society of Civil Engineers ends 5-day convention, New Orleans, La., 1952.</i>
8	S <sup>a</sup>	¶ <i>Pacific Coast Electrical Association, Operating Economics Section, will hold conference, Fresno, Cal., Mar. 20, 21, 1952.</i>
9	S	¶ <i>American Water Works Association, Southeastern Section, will hold annual meeting, Augusta, Ga., Mar. 24-26, 1952.</i>
10	M	¶ <i>National Association of Corrosion Engineers begins annual conference, Galveston, Tex., 1952.</i>
11	T <sup>u</sup>	¶ <i>American Railway Engineering Association begins meeting, Chicago, Ill., 1952.</i> 
12	W	¶ <i>Texas Telephone Association ends 3-day annual convention, San Antonio, Tex., 1952.</i>



**Secretary of the Interior Oscar L. Chapman**

*The Federal official who heads up special emergency control agencies for both the electric and gas utilities.*

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# Public Utilities

## FORTNIGHTLY

VOL. XLIX, No. 5



FEBRUARY 28, 1952

## The Nation's Critical Power Supply

*Last October a special group was appointed by the Defense Production Administration to review the nation's defense electric power requirements. Recently this so-called "Morehouse Committee" reported its findings to the U. S. Senate. The result seems to coincide to a remarkable degree with earlier forecasts of the Defense Electric Power Administration.*

BY THE HONORABLE OSCAR L. CHAPMAN\*  
UNITED STATES SECRETARY OF THE INTERIOR

THE vital importance of electric power to mobilization and an expanding civilian economy is highlighted by two important official reports recently issued by the government.

One is the memorandum on the power situation for 1952, 1953, and 1954 submitted by the Electric Power Advisory Committee to the Defense

Production Administration, December 31, 1951. The second is the electric power study contained in Report No. 1062 issued by the Joint Committee on Defense Production of the Congress on January 15, 1952.

Of interest to the Department of the Interior and the Defense Electric Power Administration is the unanimity of both reports in supporting the views long advocated by this department.

Both agree, further, on the neces-

\*For additional personal note, see "Pages with the Editors."

## PUBLIC UTILITIES FORTNIGHTLY

sity of providing the critical materials with which to expand electric power facilities if the electric power program is to attain its goals.

It is hardly necessary for me to say that I heartily concur in these conclusions.

It was my responsibility to establish the Defense Electric Power Administration in the autumn of 1950 under a delegation of authority from President Truman. One of the first steps was to engage prominent electrical engineering consultants and to name an electric utility defense advisory committee consisting of top executives of the industry selected from both private and public power. On October 19, 1950, addressing this group of key men on whom the expansion program actually depends, I made the following statement:

I do not want this industry to suffer from the lack of allocation of material. When I say that, I do so with this in mind—that I think this is such a vital industry for the defense of our country that I do not put anything as a top priority over the power program.

### *Importance of Reports*

**W**E have consistently maintained this attitude, believing that any lack of material for electrical expansion would eventually be reflected in lack of electric power for defense production. This belief has been borne out by some slippage to date to which DEPA from time to time has called attention. The encouraging thing about the present situation is that two independent and impartial studies of the electric power situation arrive at the same conclusion; namely, that there must be an increased flow of

critical materials to the electric utility industry if it is to do the job cut out for it.

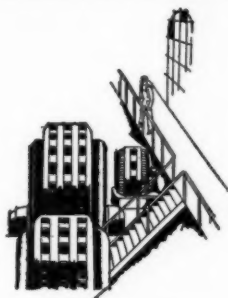
The Electric Power Advisory Committee was appointed by Administrator Manly Fleischmann, of DPA, last October to review the nation's defense electric power requirements and advise on the electric power expansion program proposed to be carried out in the next three or four years. Its membership consisted of Edward W. Morehouse, vice president of General Public Utilities Corporation, New York city, who served as chairman; Ralph Booth, of Jackson & Moreland, engineers, Boston, Massachusetts; Herbert Marks, an attorney of Washington, D. C., and former general counsel to the Office of War Utilities, War Production Board; and G. O. Wessenauer, manager of power, Tennessee Valley Authority.

**T**HE appointment of this committee was welcomed by my department, not only because it demonstrated the increasing interest being shown in the power program by defense mobilization officials and their concern that it should be adequate to the nation's needs, but because it offered an opportunity for DEPA to have its sources of technical data examined and the soundness of its conclusions and estimates reviewed by a group of experts of the highest reputation.

The contents of the memorandum on the power situation submitted as a result of this survey, referred to generally as the "Morehouse Report," have in my opinion thoroughly justified this attitude. The survey was a co-operative effort, as DEPA undertook the detailed work on the study

## THE NATION'S CRITICAL POWER SUPPLY

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### The Future of Electric Power Expansion

**“T**HE electric utilities, in the view of both DEPA and the Morehouse Committee, despite the great number of projects they have launched for expansion, are conservative in their estimates of future power needs. This indicates a sound situation with respect to basic planning and an absence of grandiose schemes and runaway tendencies. It seems to me that even with prospective new loads, it guarantees objectives that can be attained, granted the critical materials are provided in time.”

---

at the request of the Morehouse group. From this basic data the committee drew conclusions and made recommendations with which, in the main, I am in agreement.

It is my belief that it confirms the inherent soundness of the DEPA program and its approach to the large problem of mobilizing a \$26 billion industry for defense production.

#### *Thirty-million-kilowatt Capacity Justified*

**I**Ts conclusion that the 30,000,000 kilowatts of new capacity planned by the utilities for the period under survey is not excessive and, if anything, too small, coincides with DEPA's reiterated insistence that the 30,000,000 estimate is a minimum one and might well have to be increased.

It seems to me that a corollary of this finding should be a definite answer to critics within and outside the government who have declared that the extent of the power shortage has been exaggerated or that DEPA has been overshooting the mark. If this result is accomplished, I consider it one of the major contributions of the report.

The comments of the Morehouse Committee on the unbalance presented by various regions coincide with both the thinking and expressed recommendations of DEPA, including re-examination of order boards and re-scheduling of orders, and planned slippage in those instances in which aid to shortage areas can be demonstrated.

The Morehouse Report refers at some length to a comprehensive

## PUBLIC UTILITIES FORTNIGHTLY

DEPA study of the load and capacity situation which was undertaken by DEPA at the request of Chairman Morehouse and his associates, and on the results of which a considerable portion of the Morehouse Report is based. This study contains a detailed examination of load and capacity for the period 1951-54 and for the Northwest through 1956. It indicates the expected loads and minimum capacities to carry these loads as follows:

<i>Federal Power Commission Class 1 Utilities</i>				
<i>December</i>	<i>1951</i>	<i>1952</i>	<i>1953</i>	<i>1954</i>
Expected Peak Loads	68.5	77.8	85.2	90.8
Minimum Capacities				
Required	75.2	85.8	95.0	101.2

In order to carry out the loads indicated, DEPA observes, the above indicated capability needed must be properly distributed.

THE program of the utilities now on the order board, the study states, indicates the following prospective capabilities for the years shown:

<i>December</i>	<i>1951</i>	<i>1952</i>	<i>1953</i>	<i>1954</i>
Programmed Capacity under Median Water Conditions	74.9	84.5	96.7	105.1

The survey points out that the national totals give no indication of geographical distribution and that each region and its interconnections must be considered individually before adequacy of supply in any local areas can be determined.

### *Load Forecasts Deemed Conservative*

IT further states that the loads as forecast by the utilities for 1952 and thereafter are deemed to be conservative, an analysis which is concurred in by the Morehouse Committee.

The DEPA study stresses the fact

that large and important loads, some of them classified in nature, are known to be imminent, but have not been included in the estimates because location and timing are not certain. Among its findings are the following:

That the program of total generating capacity now on order be accepted and approved as a minimum, even though for the years 1953 and 1954 it shows capability to carry more load than that forecast by the utilities. DEPA confidently believes that not only are the utilities' forecasts conservative but that new and important loads, not now precise as to time and place, will be realities in 1953 and 1954 in amounts which will more than use up the presently indicated spread between minimum capacity requirements and the total capability as scheduled under the present program.

That every effort be made to obtain capacity additions above those now scheduled in regions where substantial shortages are indicated. Steps to be taken will include deliberate program slippage in regions where margins will permit in order to make room in the schedule for earlier supply to regions.

That in the event of materially changed economic and military conditions or future assumptions, the whole program of electric power expansion be reviewed.

ON the subject of the risks to the country involved in an inadequate power supply the Morehouse group is both graphic and explicit. It declares that the cost of insurance can be stated in terms of critical materials required to fabricate and construct adequate margins of capacity. One kilowatt of capacity can be fabricated

## THE NATION'S CRITICAL POWER SUPPLY

and constructed, it says, with one one-hundredth as much of scarce materials as the same kilowatt can supply the power to produce in one year.

"Stated the other way around," reads the Morehouse report, "if a failure to provide a kilowatt of capacity would result in a continuous curtailment of power supply and this curtailment were applied ratably to steel, copper, and aluminum, then the loss in output of these critical materials in one year would be approximately 100 times greater than the amounts of the same materials which go into building the kilowatt of capacity."

CONTINUING with another simplified analysis of this problem, the report points out that power shortages causing continuous cutting of load are much less likely than the intermittent curtailment resulting from inadequate margins of reserve power. A one point inadequacy in reserve margin in one year, states the report, would impose an impairment in production of critical materials five to ten times as great as the amount of materials required to build a power plant which would prevent the impairment.

"This would still be a factor of loss which seems large as compared with the price of insurance," states the report. "And this impression is strengthened by the fact that the losses in output to which we refer are those which would occur in one year and with only one percentage point inadequacy of reserves.

"The present prospect is for inadequacy extending for one, two, or even three years in important defense regions and frequently involving a deficit in minimum reserves of sub-

stantially more than a single percentage point—which means greater occurrence of curtailment.

### *Immediate Action Imperative*

"IT therefore appears that an investment in critical materials and in other measures to secure an adequate margin of power capacity is a prudent form of insurance even in critical times. Curtailment at the time of actual failure of supply should be regarded as an emergency device and one which, viewed prospectively, can scarcely be justified where circumstances still allow time to provide more effective relief."

The Morehouse Committee is to be commended for pointing out in such understandable terms that an investment in critical materials and in other measures to secure an adequate margin of power is "a prudent investment even in critical times."

Commenting upon the same subject, the report of the Joint Congressional Committee on Defense Production, better known as the Maybank Committee, under the chairmanship of Senator Burnet R. Maybank of South Carolina, states that if the defense mobilization officials are convinced as a result of the Morehouse Report that there is a need for increased expansion of electric power productive capacity, it is imperative that immediate action be taken to bring it in on time.

"It will then be necessary," says the Joint Committee report, "to make increased allocations of raw materials required to effect the increased capacity consistent with other urgent programs, even though this means diverting them from some other program less essential to the national defense."

## PUBLIC UTILITIES FORTNIGHTLY

I FEEL that besides confirming the general power picture as presented by DEPA, the Morehouse Report, together with the report by the Joint Committee on Defense Production, has contributed substantially to making the government more electric power conscious in this emergency. This means genuine progress in an understanding of the vital needs of the defense mobilization program as a whole.

The electric utilities, in the view of both DEPA and the Morehouse Committee, despite the great number of projects they have launched for expansion, are conservative in their estimates of future power needs. This indicates a sound situation with respect to basic planning and an absence of grandiose schemes and runaway tendencies. It seems to me that even with prospective new loads, it guarantees objectives that can be attained, granted the critical materials are provided in time.

The Defense Electric Power Administration was organized in the fall of 1950 with the assistance of D. L. Marlett, Assistant Administrator of the Bonneville Power Administration. It was formally created by my order December 4, 1950, acting under delegation of authority from the President. On January 4, 1951, Clifford B. McManus, of Atlanta, Georgia, was sworn in as Administrator and served

until June 30, 1951. Since that date it has been directed by James F. Fairman of New York, who succeeded him as Administrator.

Its staff is composed of executives, engineers, and consultants selected from both private and public power sources. I cannot commend the integrity and efficiency of this organization too highly. Whatever I might say in this regard, however, would be far less effective, in view of my relation to it, than the following observation which I find in the report of the Joint Congressional Committee:

"It indeed appears singular that in an industry as large as this, spread over every state of the Union and its territories, those who were invited to comment on the program with an offer by your committee that confidences would be respected, if requested, made no personal criticism against those administering the program. Such criticism as was offered objectively pointed out the bottlenecks in meeting planned expansion goals. It has heartened your committee that under these circumstances no charge of impropriety or ineptitude was hurled against those in whose hands administration of this program rests. Your committee cannot help but believe that this is a valid indication of a program generally well conducted."

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**"T**AXES can be levied on products, but the consumer pays the taxes in higher prices. They can be levied on services, but consumers pay them through higher rates and fees. They can be levied on incomes and other business establishments, but it can be shown even here that consumers pay them."

—JOHN L. COLLYER,  
President, B. F. Goodrich Company.

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# Metropolitan Basis for Transit Planning

*How much of a hurdle are city, borough, or county boundaries to overall metropolitan mass transportation planning? What factors must be considered in planning such a system for an entire metropolitan region such as the New York-New Jersey-Connecticut area? Where can a happy medium be hit between improved highway facilities and modernized rail transportation?*

By WILLIAM REID\*

PRESIDENT, HUDSON & MANHATTAN RAILROAD COMPANY

THE New York metropolitan region is made up of 14,000,000 people, over one-half of whom live within the city and the balance in the surrounding cities and suburban areas. It contains industry and business of every kind and description.

Public officials pay no attention to state or county boundary lines when constructing highways or river crossings to take care of transportation on rubber in this metropolitan region. Such over-all consideration is not evident for the transportation needs of the entire population. The person who must use railroads because he cannot afford an automobile must use disjointed and antiquated transportation while car owners demand—and get—more and better facilities.

\*For additional personal note, see "Pages with the Editors."

The New York State Department of Public Works estimates that since 1926, \$4,850,000,000 has been spent for highway construction by the state and its political subdivisions. In addition, the state has contracts under way which will cost about \$150,000,000 more, a total of \$5 billion for highway construction in twenty-five years.

New Jersey has been building good roads for many years and has put hundreds of millions into its highway facilities.

The Port Authority is reported to have spent some \$290,000,000 for its highway facilities.

According to its recent financial reports, the Triborough Authority has issued some \$255,000,000 of bonds for its highway facilities.

Billions more are being urged for additional highways, while nothing is

## PUBLIC UTILITIES FORTNIGHTLY

provided for a modern mass transportation system for rail travel.

The people who must travel by rail in metropolitan New York are entitled to have governmental assistance to provide them with decent rapid transit rail transportation—and *their needs should be considered now!*

More than fifty years ago, New York city officials had vision enough to start building a vast mass transportation system within the city proper, but officials in the metropolitan area outside the city have only discussed the problem. As a result, there is no comprehensive, modern mass transportation system for the entire region.

**T**HERE is no disputing the urgent need in this area for a modern mass transportation rail system direct to New York city. The railroads do not have the money to create such a system, and since spending for highways by the several states won't provide adequate mass transportation facilities and won't solve the traffic problem but only add to the congestion, those who have made an unbiased appraisal of the situation believe it is time to call a halt to the spending of billions more for river crossings, highways, parkways, etc., and do something about modernizing the railroads. They believe that commuter transportation by rail as well as by rubber is a public problem and that state officials should take the same interest in one as in the other. Although a unified mass transportation system under as sound a financial plan as possible should be provided, this does not mean that all highway construction should stop.

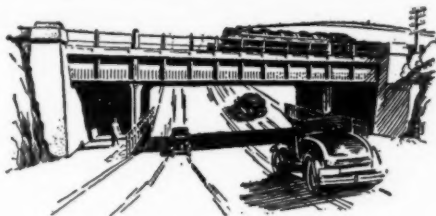
Tax exemption should be given to any organization formed to construct

or operate such a system just as is given to the authorities furnishing transportation facilities for travel on rubber; that is, exemption from real estate taxes, from income taxes, and from taxes on bond interest.

**T**HE cost of providing adequate rapid transit rail facilities to transport the ever-increasing number of people in the New York metropolitan region is emphasized by those who want to spend more billions for highways as a reason for not providing adequate facilities for people who must use rail transportation. If existing railroad systems are used as a base and necessary expansion and improvements made, such as co-ordination and consolidation of present facilities and services, elimination of duplicating services, and the purchase of new equipment, the cost of the rail system would be "peanuts" compared to planned highway costs.

Some of the operators of existing tax-exempt transportation facilities seem to believe they should provide those facilities only for travel in autos and busses, because they are financially successful, and should leave operation of other transportation facilities such as railroads to some other agency. These tax-exempt transportation authorities were not created solely for that portion of our population which can afford to travel on rubber as opposed to those who must travel by rail. They were created to furnish transportation facilities which include railroads, steam or electric; motor truck or other street or highway vehicles; tunnels; bridges; boats; ferries; car floats; lighters; tugs; floating elevators; barges; scows or harbor craft of

## METROPOLITAN BASIS FOR TRANSIT PLANNING



### Metropolitan Character of Transit

**"No local governmental body alone can cope with the over-all need for a mass transportation system. Only a combination of the several states, working in unison, can solve the problem. A metropolitan area-wide public body is a MUST. It should do what needs to be done to consolidate and modernize existing services wherever necessary and desirable."**

any kind; aircraft suitable for harbor service; and every kind of transportation facility now in use or hereafter designed for use for the transportation or carriage of persons or property.

No one, least of all the operators and builders of highways, bridges, and tunnels, appears to be concerned about the cost involved in the building of more of such facilities.

**A** HIGHWAY is being built across the state of New York estimated to cost \$500,000,000. New Jersey has just finished a cross-state highway at a cost of \$255,000,000. One of the authorities wants to build a tunnel estimated to cost \$85,000,000. Another authority is reportedly planning to build highways within the city to cost some \$75,000,000. Nassau county, Long Island, is reportedly building a highway running east and west, crossing all the heavy traffic, at a cost of \$47,000,000.

No such vast sums are needed to provide suitable mass transportation in metropolitan New York, but the same initiative, drive, and accomplishment exhibited in highway construction is absent so far as the needs of the millions who cannot ride in automobiles are concerned.

The newspapers of December 13, 1951, carried a story about the Port Authority's bus terminal at 8th avenue and 40th street, which stated the initial year's operating loss was \$1,400,000. It said six busses a minute leave the terminal during the rush hours; that 5,200 busses come in and out a day, carrying 160,000 riders on peak days—Wednesday and Friday—or an average of thirty passengers a bus.

If modern subway-type cars were provided for this service, practically all of these busses could be taken off the main highways and the passengers could travel in comfort and would not be tied up for hours as they were one

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night recently by a slight snowstorm.

**I**T is generally conceded—certainly it has been the experience of the railroads—that riders cannot or will not pay fares sufficient to provide decent commuter service under the so-called “free enterprise system.” It is a well-known fact that every time railroad fares go up, the number of passengers decreases and many never return to the railroads. It is also a well-known fact that every time a subsidized bridge or tunnel is built, the railroads lose passengers to vehicles on rubber, and that whenever states and their political subdivisions construct highways feeding these bridges and tunnels, the railroads lose additional passengers.

Experience has demonstrated that the spending of billions of dollars for highway facilities for the accommodation of automobiles and busses has not eased the acute traffic-congestion problem but has only tended to make traffic conditions in the city worse and worse. That is why a modern, unified mass transportation system by rail should be provided before any more billions are spent solely for road construction.

**T**HERE seems to be a difference of opinion as to what part busses should play in providing mass transportation in metropolitan New York. Should they be used as feeder lines or should they continue to jam the highways by competing with the railroads? Or should they be utilized to carry passengers into the city only from those places where it is impossible for people to conveniently utilize railroads?

The proper rôle of the bus has been exaggerated and some people argue that mass transportation needs can be

met by more and bigger highways and tunnels for more and more busses and automobiles. In the smaller cities it may be true that busses alone can handle mass transportation but in the great metropolitan centers the bus is inadequate.

The advantages of mass transportation may be appreciated when one stops to consider what would happen if all of the more than 5,000,000 daily subway riders were required to use automobiles and busses operating on city streets. Of course, no such thing is within the realm of possibility. During rush hours, a subway train of 10 cars carries approximately 1,600 people. It would require more than twice that number of busses, or 400 automobiles, to carry the same load. With the streets now being used to capacity in one way or another, how could these additional vehicles operate? They couldn't! The way to ease the traffic problem is to get automobiles off the streets—not to build more facilities for more cars and hence worsen the congestion.

**S**OME way must be found to dislodge all-day parkers from the city streets. While the automobile is here to stay, streets were not built as substitutes for parking lots and garages. Streets built wide enough to accommodate four lanes of traffic are cut in half because of all-day automobile parking, so it is impossible to make store deliveries on business streets without blocking traffic entirely.

Elimination of all-day parking of cars from suburban areas on the city's streets by prohibiting parking in business areas and the construction of a modern mass transportation system would induce people to ride to work

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by rail instead of by automobile. Providing more and more garages and parking lots without prohibiting street parking will only bring additional cars into the city and hence is not a solution of the traffic problem.

The traffic problem in the New York metropolitan area will never be improved, and neither will the local traffic problems of the outlying communities, by the building of wider and wider streets, arterial highways, boulevards, and nonintersecting highways to bridges and tunnels for busses, automobiles, and trucks. For despite the billions spent, such construction cannot keep pace with the ever-increasing number of vehicles.

As the Regional Plan Association recently pointed out, "One of the effects of the failure to make a comparable investment in railroad improvements has been enormously to increase the number of vehicles which cause congestion on Manhattan's streets and use these streets as mass parking fields."

THE construction of bridges and tunnels for vehicular traffic was long ago determined to be a governmental job. So was the construction of mass transportation facilities within New York city. That determination brought into being the existing authorities.

These authorities have been given the power to furnish transportation facilities and to determine and fix their tolls and charges. *And they are exempt from taxes of all kinds.* In addition to these subsidies, the states and their subdivisions have constructed many miles of highways and parkways leading to these facilities, for which the

authorities have paid very little, if anything.

The cost figures of river crossings and other subsidized projects shown in their financial statements do not reflect the true cost of all the facilities which make these projects financially successful. The story would be entirely different if the authorities had to pay for their right of way, for the equipment and operators of such equipment, and taxes of all kinds, as do the railroads. This shows the inconsistency in the tax methods relating to transportation agencies. It doesn't make sense and needs corrective action. The realistic way to correct this inequity is to have all transportation facilities pulled together.

The use of governmental resources where such use is wise and in the public interest should not be condemned. However, everyone comprising the traveling public is entitled to adequate transportation facilities and if governmental resources are required to make this possible, they should be forthcoming. *But no group favoritism should be shown*, as is now the case.

NO local governmental body alone can cope with the over-all need for a mass transportation system. Only a combination of the several states, working in unison, can solve the problem. A metropolitan area-wide public body is a *must*. It should do what needs to be done to consolidate and modernize existing services wherever necessary and desirable.

The time has come to set up a tri-state organization whereby the costs of a system of large passenger-carrying capacity will be paid for in part by its passengers, in part by the tax exemp-

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tion mentioned before, and any remaining deficit paid for in some manner to be determined by the states involved.

It is of great importance to the individual rider and it is also of importance to big and little industry that appropriate transportation be provided so that the great masses of people can commute to and from work with as little inconvenience as possible and at a rate of fare they can afford to pay, intrastate as well as interstate.

It should also be a matter of great concern to the business interests in New York city that there has been no increase during the past twenty years in the number of people coming into New York city from the New Jersey sector of the metropolitan area. They have shifted in very substantial part from the railroads to busses and automobiles since the river crossings were built, but strange as it may seem, the total number of people crossing the river today is not much different from what it was in 1929.

**T**HE present railroad setup in the New York metropolitan region is in substantial part a large economic waste because of duplication of routes, noncapacity usage, and abandoned lines, particularly in New Jersey. The time has come to begin the elimination of these duplicating services and combine the useful ones into a co-ordinated system equipped with new and modern equipment. Commuter railroads must be acknowledged to be a public problem and steps must be taken by the proper public officials to get the job under way. Among the things which need to be determined are:

1. What duplicating rail service, including ferries, can be eliminated?

2. What needed right of way should be purchased and what should be leased?

3. Should passenger service alone be provided?

4. Should freight service be included and if so, should it be in all instances or just in some?

5. What tunnels need to be constructed (a) under the East river and (b) under the Hudson river?

6. Should tunnels be built for railroad cars or subway cars?

7. How much would construction costs be increased by building tunnels for railroad cars as compared with tunnels for subway cars?

8. What part would busses play?

9. What should the operating setup be?

10. What should the fare structure be?

11. What part would the various regulatory bodies play in supervising operations?

12. Should the states furnish funds for construction and equipment and if so, how should they be amortized?

13. Should bond interest come from the fare? If not, who should pay the interest?

14. If operating deficits should occur, how should they be met?

Many studies of this problem have been made going back for twenty-five or thirty years. The need for a regional mass transportation system is vital *now* to the development of metropolitan New York, and there is nothing the man on the street—not on rubber—would appreciate more than seeing this job accomplished.



## Federal Commissions—How Much Independence?

### Part II. Key to Federal commission success—good housekeeping

*One ground of attack on the independent regulatory commission is that it does a poor job of managing its own affairs. Here is an analysis of what we face in providing for better management within our commissions, and an evaluation of current proposals for improvement.*

By C. S. HYNEMAN\*

THE independent regulatory commissions have been persistently under attack for a period of fifteen years. In an article in the preceding issue of the *FORTNIGHTLY* I examined the bases of this attack and attempted to evaluate them. The attack was found to rest on three grounds, each of which has a good deal of merit in it. They are: (1) The independent commission is too independent; (2) regulation should be put in an administrative department; and (3) a commission does a poor job of managing its working force.

The opponents of the independent commission believe that these three citations of shortcomings constitute a sufficient case for doing away with the

independent regulatory commission. They propose that the authority which the commissions have to make regulatory policy, including the formulation and issuance of rules and regulations, be transferred to administrative departments headed by single officials. They have not said enough on the subject to make clear whether or not they are in agreement as to what should be done about authority to decide individual cases which arise in the enforcement of statutes and rules and regulations; i.e., the decision of questions of an adjudicatory nature. Some opponents of the independent commission would preserve a commission for adjudication of specific questions, but would put the commission in the department which makes the regulatory policies, and subject the commission

\*For personal note, see "Pages with the Editors."

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in some degree to the authority of the official who heads the department or to the authority of a bureau chief who has responsibility for making the regulatory policy. Undoubtedly some critics of the independent commission see no need for any kind of commission; they would allow the department head or bureau chief to make the adjudicatory decisions as well as formulate and issue the regulatory policies.

**T**HE first thing to get clear about is: Why do we need better management within the regulatory commission than we have now? It is not primarily to save money. If efficiency means economy in the use of man power and materials, and if we want economy simply to cut the costs of the Federal government, then efficiency is not a consideration of outstanding importance in improving our regulatory commissions.

According to the latest figures available to the general public, the payrolls of all the independent regulatory commissions combined included less than 9,000 persons. If their combined employment be up to 10,000 today, this is approximately one two-hundredths part (one-half of one per cent) of the total employment of the Federal government.

If, by better management, all the independent commissions did their work as well as they do now with a 25 per cent reduction in personnel, the total saving in reduced payrolls would be not more than \$15,000,000. If all the commissioners and all their subordinate officials and employees worked for nothing they would relieve us of paying approximately \$1 out of

every \$1,200 we now pay to meet the costs of the Federal government.

Granting that we want to save a dollar where we can, these figures make it clear that a wish to cut the costs of government is not the primary explanation of demands that the regulatory commission do a better job of managing its working force.

**T**HE important work of a regulatory commission gets its expression at the top of the organization, not at the bottom. You and I judge the performance of the Post Office Department according to what is done at the bottom of the organization—whether our mail is picked up and delivered to our satisfaction, whether we get prompt and courteous treatment at the post office window. We judge the performance of the regulatory commission according to what comes out at the top of the organization—whether the policies which are formulated and issued by the commissioners meet our standards and whether the commissioners' decisions of an adjudicatory nature please or displease us. Save for those minor instances where it renders some service in addition to its regulatory functions, the regulatory commission stands and falls in our approval according to our like or dislike for the decisions which the commissioners make.

One conclusion follows inescapably from this simple observation: The men and women who work for a regulatory commission exist only to help the commissioners do their work. The working force is competent if it makes, carefully and with thoroughness, the studies which the commission wants made and if it lays before the commissioners

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a thoughtful analysis of the alternatives which are available to them in the decision of a regulatory question. The working force is well managed if it is working on things which the commissioners want it to be working on at any time, if work is well-timed and co-ordinated, and if studies and recommendations include everything the commissioners want to know about and are presented so that the commissioners can readily see what alternatives they have and what are the probable consequences of adopting any of those alternatives. If we need better management of the commission's working force, we need it to increase the assurance that men or women of highest competence will be employed and that they will do their work the way the commissioners want it done.

**I**N order to effect improvements in managing the working force, critics of the regulatory commissions make two proposals: *First*, it is said that those commissions which have organized the working force or staff along professional lines should reorganize them according to main bodies of regu-

latory problems. *Second*, it is said that the chairman of the commission should be made boss of the working force.

At the time I worked in the Federal Communications Commission, the staff was organized according to professional interest and competence. There was a chief accountant with authority over the accountants who worked for FCC; a chief engineer with authority over the engineers; and a general counsel with authority over the lawyers. Most if not all the tough problems which came before the commissioners had accounting, engineering, and legal aspects. Each of these problems was studied, and the recommendations to the commissioners were made by men who had different bosses.

The result of this arrangement was that there was trouble in getting men from the three divisions to work on the same problem with proper timing. Too much of the time a number of problems which the commissioners wanted to settle were held up, not because accountants, engineers, and lawyers had been loafing but because they had been working on different problems. They had not been put to work

### New Charter for Better Commission Management

**T**HREE bills now before Congress (HR 3307, HR 3678, S 1139) would make the chairman manager of the business affairs of the independent regulatory commission. This is the language which appears in all of the bills:

The functions of the commission in respect of (1) its internal management, including budgeting and accounting, personnel (including appointments and assignments), supply, management research, information and publications, and other administrative matters; (2) its relations with Congress; and (3) the execution of its policies, shall be performed on behalf of the commission by the chairman, and the chairman shall have exclusive and final authority, on behalf of the commission, in respect of such functions. Such authority of the chairman may be exercised, subject to the direction and control of the chairman, by any officer or employee of the commission designated by the chairman for such purpose.

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on the same problem and kept at work on it, simply because there was no one below the level of the commissioners themselves to say to accountant, engineer, and lawyer alike: "This is what you are to work on now and this is what you are to keep at until recommendations are ready to go to the commission."

**I**T was generally acknowledged within FCC that a lot would be gained by organizing the staff according to the main bodies of work to be done; e.g., a common carrier division with a head having authority over all the accountants, engineers, and lawyers who work on telephone and telegraph problems; a broadcast division, including accountants, engineers, and lawyers working under the same boss; and so on. But at the same time it was clearly recognized that something might be lost in making such a reorganization and it was long held up because of fear that the price for making the change might be very high indeed. If all the studies relating to telephone matters are made by a staff having a common boss, that boss is in a position to put his impress on the findings. If that boss reviews all the recommendations which go to the commission on telephone matters, he is in a position to determine what the recommendations will be.

In such a case, the commissioners are in some degree at the mercy of the chief of the division when they inquire into the alternatives which are available to them and seek to weigh the consequences of adopting different alternatives. They can have before them the men who actually worked on the problem, and ask these men what they be-

lieve that does not appear in the memorandum which was laid before the commission. But if the commissioners do this, they are asking men to present views which these men may believe their immediate superior has purposefully rejected and which, so far as they know, he may consider irrelevant or not worthy of serious consideration. This is not a situation which encourages the free discussion of different points of view the commissioners would like to have. It does not invite the free discussion which is likely to come out when the men who worked on the problem (accountants, engineers, and lawyers) have different bosses and know that their bosses do not always agree completely on the issues which are before the commissioners.

**A**s of my latest information, some of the regulatory commissions had the working force organized according to professional interest and competence, and others had it organized according to main bodies of regulatory problem. FCC recently went over to the latter type of organization.<sup>1</sup> A task force which studied the regulatory commissions for the Hoover Commission said that all of them which have the staff organized according to professional interest and competence should reorganize according to main bodies of regulatory problem. If the twelve members of the Hoover Com-

<sup>1</sup> "The FCC Reforms Itself," by Charles Koblentz, *PUBLIC UTILITIES FORTNIGHTLY*, Vol. XLVIII, No. 8, page 484, April 12, 1951; "The Reorganization of the Federal Communications Commission: a Case Study in Administration and Organization," by E. W. Clemens and L. W. Thatcher, *Land Economics*, Vol. XXVII, page 213, August, 1951.



### Special Difficulties of a Regulatory Staff

**"I** THINK we must presume that the staff of a regulatory commission will not usually, and possibly will not ever, meet the tests of good administrative relationships that we set up as a model in other types of administrative organization. The staff of the regulatory commission must always serve many masters—the commission as a whole and the commissioners separately. An organization that must serve so many masters is not likely ever to have the appearances of a well-regulated organization."

mission thought this a good idea, they did not think so with enough conviction to make a positive recommendation to that effect.

My own belief is that the best type of organization for one regulatory commission may not be the best for another. What type of organization will prove most satisfactory for any commission will depend, it seems to me, on the nature of the regulatory problems which are encountered, the personalities of the commissioners at the top of the organization, and the amount of confidence they have that they will never be deceived and that their judgments will never be prejudiced by the subordinate officials who must report to them. As to how these considerations add up and balance out, and as to what they indicate to be desirable in organization of the working force—as to these matters I think no

one can have as good a judgment as the commissioners themselves.

**T**HE second current proposal for improvement of management within the regulatory commission calls for the chairman of the commission to be made the boss of the working force. The Hoover Commission endorsed this proposal, saying: "We recommend that all administrative responsibility be vested in the chairman of the commission." It added, in its comment on this recommendation, that "The volume of this administrative work will, in every instance, require the appointment of an executive director. He should be responsible to the commission through the chairman."

In reorganization plans which the President submitted to Congress in 1950, and which Congress permitted to become effective, the chairman was

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made boss of the working force in four of the regulatory commissions—Federal Trade Commission, Federal Power Commission, Securities and Exchange Commission, and Civil Aeronautics Board. Bills now under consideration in Congress would give the chairman similar power in each of three regulatory commissions—Interstate Commerce Commission, Federal Communications Commission, and National Labor Relations Board. The chairman of the board of governors of the Federal Reserve System was made "the active executive officer" of the board by the statute creating the board.

Neither the reorganization plans nor the bills now in Congress require the appointment of an executive officer to assist the chairman in managing the working force, but in all cases the chairman is given power to create such an office by delegating responsibility for management to an official of the commission. The reorganization plans and the bills are not identical in language conferring management authority on the chairmen of the commissions, but the essential nature of the chairman's power in all cases is indicated by the language of the bills now in Congress, quoted in the box on page 281.

**T**HE reasoning which is offered in support of the increased power of the chairman clearly has a lot of merit:

1. The working force of the commission needs a boss, and needs to know who its boss is. It will know who is boss and can know what the boss wants when suggestions and orders come to it from one man. When sug-

gestions and orders come from the whole commission—five, seven, or more men—there may be delay in reaching decisions as to what subordinate officials and employees are to do, and there may be conflict in suggestions and orders because individual commissioners may say things which should be said only by the whole commission.

2. The chairman of the commission stands highest in prestige among the commissioners. Therefore, he can put the greatest force behind suggestions and orders if one man is to speak for the whole commission.

3. The President, who is generally responsible for seeing that the work of the administrative branch of the government is done properly, wants to speak to one man when he has something to ask or something to say about the work of the commission. He should be able to talk to a man who has the authority necessary for making sure that the President's wishes will be taken into account. This person must enjoy high influence with the other commissioners and must have authority to see to it that the working force responds to the President's wishes as they are interpreted and modified by the commission. Only the chairman of the commission meets these specifications. To make sure that the chairman will meet these specifications, the bills now before Congress provide that the President shall determine which commissioner will serve as chairman if the President does not now have that power.

**H**EARINGS were held on the reorganization plans which proposed to make the chairman boss of the

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working force, and members of the commissions which are affected by the bills now in Congress were asked to comment on their provisions. Testimony and memoranda which were printed in the hearings, and comments on the current bills which have been made available in mimeograph, reveal that there is reasoning of high merit which is adverse to the increase of the authority of the chairman.

1. The chairman, without responsibility for managing the staff, is the busiest member of the commission; therefore, he is least able to assume the extra duties involved in giving direction to the staff. Among the members of the commission, the chairman is the most prominent in the minds of the public, the press, the Congressmen, the President, and other administrative officials. He is the one to whom all these people go with their suggestions, their questions, and their complaints when they do not know who else to go to on any matter relating to the activities of the commission. All these people expect the chairman to have a sure knowledge of the regulatory problems which come before the commission and of the commission's policies relating to those problems. The chairman, therefore, is under the greatest pressure of all the commissioners to participate fully in the deliberations of

the commission on regulatory matters. And the President, in naming a man to the chairmanship, is likely to select him primarily for his knowledge and judgment on regulatory matters and to impress upon him the importance of bringing his wisdom to bear on the deliberations of the commission. To ask the chairman to divert attention from regulatory matters to the direction of the working force is to ask him to turn from his obligations of greatest importance to matters of lesser importance.

2. To give anybody, other than the whole commission, authority to direct the commission's staff, is to give that person extraordinary power over the policies of the commission. If this person can fix the basic organization of the working force, he can decree an organization according to major bodies of regulatory problem when the majority of the commissioners think that organization should be according to professional interest and competence or according to some other basis. If he can appoint the principal officials under the commission, he can force the commission to act on the basis of studies and recommendations which are reviewed and influenced by men in whom the majority of the commissioners have little or no confidence. If the person who is boss of the working



**Q** "The men and women who work for a regulatory commission exist only to help the commissioners do their work. The working force is competent if it makes, carefully and with thoroughness, the studies which the commission wants made and if it lays before the commissioners a thoughtful analysis of the alternatives which are available to them in the decision of a regulatory question."

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force is to the left (or to the right) of the other commissioners on regulatory policy, he can use his power to appoint and direct the staff as a means of establishing regulatory policies which are too far to the left (or to the right) to suit the majority of the commissioners.

And the commissioners who are opposed to the policies of this person cannot successfully counter his planning and maneuvering, because regulatory policies are inescapably influenced by the beliefs and the convictions of the subordinate officials and employees who feed facts, suggestions, and ideas up to the commissioners.

3. If the chairman is to be the boss of the working force, and the President is to name the chairman, then the way is made clear for the President to exert more influence on regulatory policies and regulatory decisions than has been possible up to now. A main reason for creating the independent commissions has been to assure that regulation will not be subjected to the degree of political control which is thought proper for nonregulatory activities of government. To give the chairman, a man selected for that position by the President, the extraordinary influence on regulatory policy which was described in No. 2 above is to give the President power to inject into regulation considerations that ought to be viewed as irrelevant and improper. If it be thought that the President needs more power than he now has to influence regulatory policies and decisions, the President ought to express his wishes to the whole commission so that the commission by majority vote can agree to respond to

them or not respond to them. The President ought not be permitted to influence regulatory policies by causing the chairman to do things which the majority of the commission are unwilling to have done and in respect to which the majority of the commissioners are willing to do battle with the President.

When I ponder the pros and the cons of the proposal to enlarge the chairman's authority, I conclude that they just about balance out. I think a man can get on either side of the issue without feeling obliged to apologize for the position he has taken.

I WORKED in a regulatory commission (FCC) for three years where the commission was boss and I thought the staff needed a lot more bossing than it got. I see no reason to believe that a commission will consistently do a good job of giving direction to and exerting control over its working force. The principal officials under the commission who are trying hard to satisfy the commissioners on regulatory matters, and who are conscious of occasional failures to satisfy, will usually be reluctant to intrude on the commissioners as a group for advice and instructions as to what to do on a matter of internal management. They will let little problems of internal relations become big problems before they will pull the whole group of commissioners away from the regulatory problems which are their main concern.

Furthermore, as I wrote at another place, "questions of administration that go before the whole commission will meet with vacillation. The primary concern of the commissioners is with issues of regulatory policy. They strive



### Test of the Regulatory Commission

**“WE judge the performance of the regulatory commission according to what comes out at the top of the organization—whether the policies which are formulated and issued by the commissioners meet our standards and whether the commissioners’ decisions of an adjudicatory nature please or displease us. Save for those minor instances where it renders some service in addition to its regulatory functions, the regulatory commission stands and falls in our approval according to our like or dislike for the decisions which the commissioners make.”**

for an atmosphere of mutual good feeling so that they may stand together on issues of regulatory policy. When the agency is under attack from any sector of the public, the commissioners will go to great lengths to avoid an issue that might divide them. When they are divided on important issues of policy, they will go to great lengths to avoid the widening of the breach. Under such circumstances, the particular commissioner who wishes to do nothing about a matter of internal administration is likely to win. He may be offended if action is taken; the other commissioners can tolerate for a while longer what they are already tolerating.”<sup>2</sup>

<sup>2</sup> *Bureaucracy in a Democracy*, by Charles S. Hyneman (New York: Harper & Brothers, 1950), at page 518.

**A**DMITTING that the whole commission is not likely to be a good boss for its staff, we may also be forced to admit that no one else can be a wholly satisfactory boss. As pointed out earlier in this essay, the men and women who work for a regulatory commission, save for some minor exceptions, exist only to help the commissioners do their work. Anybody who sits between the commissioners and its staff must be wholly concerned to cause the staff to do what the commissioners want done the way they want it done. The work of the staff does not always go up to the whole commission. Much of it goes to a particular commissioner, and the particular commissioner has his own ideas as to what he wants done and how he wants it done.

Individual commissioners will give

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instructions to the members of the staff they work with and they will not always clear with the man who has been set up to direct the staff. If this boss, be he chairman or someone else designated by the commission, tries to bring order into work assignments and procedures for doing work, he is always running a risk of stopping or hindering something that one or a few or all of the commissioners most prefer to have done. Whoever is set up to direct the staff must direct it so as to satisfy the commissioners and not to satisfy himself.

It is no easy job to run an organization to please somebody else and the difficulty is multiplied when those who are to be pleased are not one man but several men.

UNDOUBTEDLY some improvement of management within the commission can be effected by the appointment of an executive officer who reports to the commission. The executive officer can relieve the commission almost entirely of worry about the part of the organization that carries on the housekeeping functions—the personnel office, the budget office, the office that keeps the accounts and manages finances, the office that handles supplies, and so on. The executive officer can also decide, satisfactorily to the commission, many questions that arise among the staff that is working on regulatory problems. Some of our commissions have long had such an executive officer, in some cases the secretary, and report reasonable satisfaction with this arrangement.

There is a limit, however, to what an executive officer can do. If he tries to decide questions of considerable im-

portance that arise among the staff that works on regulatory problems—makes work assignments, transfers men from one place in the organization to another, makes promotions and refuses promotions, insists that studies be made in a particular way or that memoranda for the commission be prepared and submitted in a particular way—if the executive officer tries to decide questions of this character, he is likely to be challenged by the principal officials who are in charge of regulatory work and find his decisions appealed to the commission. And the commissioners are constantly under temptation to tear down the prestige which they have previously tried to establish for the executive officer.

IT is the difficulties inherent in the position which cause many people to believe that only a member of the commission can effectively discharge the responsibilities of an executive officer. To give the chairman the job of directing the staff is to put additional duties on the most overworked member of the commission. But to give another member of the commission the direction of the staff is to give him opportunities for influence on regulatory policy which would raise this member above the other members. Of the two alternatives, the first seems generally to be preferred; *i.e.*, to make the chairman the boss of the working force. That is what the Hoover Commission recommended. That is what the President provided for in the reorganization plans which are now in effect. That is what is provided for in the bills now under consideration in Congress.

If we make the chairman manager of the internal affairs of the regulatory

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commission, we can of course give him the assistance of an executive officer who takes instructions from him and reports to him. The reorganization plans which are now in effect and the bills which are now before Congress authorize the chairman to provide himself with such an assistant.

THE likelihood that the chairman, because of his control of the working force, will exercise an undesirable amount of influence on regulatory policies and regulatory decisions can be reduced by requiring him to get the approval of the whole commission for his most important actions. The bills now in Congress do not state that the chairman shall obtain commission approval for any of his actions relating to management. The reorganization plans, on the other hand, imposed four limitations on the chairman: (1) In carrying out any of his functions, the chairman shall be governed by general policies of the commission and by such regulatory decisions, findings, and determinations as the commission may by law be authorized to make. (2) The appointment of heads of major administrative units under the commission shall be subject to the approval of the commission. (3) The chairman is not given authority over persons employed in the immediate offices of the several commissioners. And (4) the whole commission and not the chairman has the power to fix budget estimates and

to determine the distribution of appropriated funds according to major programs and purposes.

THE comments on the bills currently before Congress, submitted by the regulatory commissions to which they apply, indicate a strong conviction that limitations on the chairman, such as those just enumerated, ought to be inserted in the legislation if it is to be enacted.

In considering the merits of any proposals for improving management within the regulatory commissions, one further observation should be kept in mind. We are not seeking an arrangement which will make the regulatory commission a model of good administrative practice. I think we must presume that the staff of a regulatory commission will not usually, and possibly will not ever, meet the tests of good administrative relationships that we set up as a model in other types of administrative organization. The staff of the regulatory commission must always serve many masters—the commission as a whole and the commissioners separately. An organization that must serve so many masters is not likely ever to have the appearances of a well-regulated organization. Our goal in improving management within the regulatory commission is not the achievement of the ideal but rather advance from what we have to something we hope will be a little bit better.

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**“WE** no longer need debate against the promises of Socialism in America. We can point instead to the failure of Socialism in the British Isles.”

—DECHARD A. HULCY,  
President, Chamber of Commerce  
of the United States.



# Pie in the Sky over Niagara

## Part II. *Attitudes of Federal agency, labor, and the press*

*In the preceding instalment, the author described three alternative bills pending in Congress for Federal power development on the Niagara river. This article describes what already has been done and is being done by Federal agencies to obtain control of this important development.*

By GEORGE W. KEITH\*

UP to now we have looked at the attitudes of those opposed to Federal and state handling of the Niagara project. Let us now examine the case of the proponents of Federal operation.

Thomas C. Buchanan, now chairman of the Federal Power Commission, Rural Electrification Administrator Claude R. Wickard, William E. Warne, former Assistant Secretary of the Interior, Brigadier General C. H. Chorpeneing, Corps of Engineers, Assistant Chief of Engineers for Civil Works, and K. T. Hutchinson, Assistant Secretary of Agriculture, among others, have indicated favor for the Lehman-Roosevelt bills to authorize direct Federal development.

Hutchinson, in a letter, said his de-

partment wanted the "preference clause" as contained in the Lehman-Roosevelt bills. "This provision follows the pattern of Federal power policy in effect for many years, and is consistent with the provision of § 5, Flood Control Act of 1944," Hutchinson wrote.

WHEN Thomas C. Buchanan, then vice chairman of the FPC, told the committee he favored the Lehman-Roosevelt bills, Senator Dworshak commented on the proposed surrender of FPC authority.

"Mr. Buchanan, I know the Federal Power Commission guards zealously its prerogatives and its authority in the field of power generation . . . and . . . I am somewhat amazed in § 3 of this bill (S 517), which states that 'The President is authorized to trans-

\*For personal note, see "Pages with the Editors."

## PIE IN THE SKY OVER NIAGARA

fer facilities of the project to . . . the state of New York. . . ." "And then later on we find this proviso: ' . . . in the event of any conflict between the provisions of this act and of such agreement, and the provisions of the Federal Power Act . . . the provisions of this act and of such agreement shall govern in respect of the project herein authorized.'

"Does this not mean," the Senator wanted to know, "virtually an abdication of the Federal Power Commission in this particular instance?"

Buchanan explained this by saying that FPC action was withheld from the treaty.

Senator Dworshak asked the FPC official if this did not represent FPC approval "to a drastic innovation in the building and in the ownership of power projects constructed by the government?"

Buchanan replied that the project is so valuable and the power needed so badly it ought to be developed as quickly as possible, and that the policy of who shall handle it belongs to Congress.

When the Senator asked whether other states would not follow suit, he observed: "Senator, I will say this, that if it is fair here, it is fair in other places."

**T**HIS brought Senator McClellan into the discussion. He had in mind the Bull Shoals dam being constructed in his state by the Federal government. Could Arkansas get in on this proposal to turn back the project to the state at cost, upon completion? Referring to the Niagara proposal, McClellan said, "We have a prospect here of a power project, apparently

one of the best in the nation. . . . We are constructing them daily, almost, throughout the country . . . others that do not measure up nearly as well in ratio of costs to benefits, and we are not proposing to sell any of those, or transfer any . . . to other states, or other authorities when they are constructed.

"But now we have this . . . one of the very best, and we are proposing in the initial legislation, not that the government construct it and keep operating it as it is doing in the others, but that we construct it and sell it to a state authority at cost. . . . What makes the difference?"

Senator Lehman came to the rescue of Buchanan with a lengthy statement in which he mentioned the love of the people of the state for Niagara, which he said was probably unlike that of any other state for a stream, and that because of the remedial works, it would be unfeasible to have the Engineers build these and not the entire project; and, because of his great anxiety to have the people of New York state get cheap power he had placed safeguards in his bill so that the Federal government could say just what must be done with the power and what must not.

The discussion got exactly nowhere as far as Senator McClellan was concerned. He left the impression that he thought what was sauce for the state of New York ought to be the same for Arkansas.

**R**EA Chief Wickard followed Buchanan in the hearing. He said he was for the Lehman Bill because it would go a long way toward providing more and cheaper power for rural users in the Northeast. He al-

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leged that rural co-operatives in the state buy all their power from private companies, at a cost of 1.13 cents per kilowatt hour, as against .86 cents for all REA co-ops (1950). He claimed that 15,000 farms in the state and Pennsylvania, were without electricity and without access to co-op service because they were surrounded by lines of private companies.

He mentioned a surcharge of 12 per cent by the New York Public Service Commission, which he said was to help defray costs of construction of rural lines. This brings up the cost of electricity to these consumers, and is the source, Wickard said, of many complaints.

Senator McClellan wanted to know if the New York commission were not doing a good job. He added that "once these facilities become the property of the state of New York, or of the New York Power Authority, then the rate making for this power is under the same public service commission that you are now condemning. I think it is a serious question. I think we ought to have some clarification of it, whether these safeguards in this bill are actually safeguards that will extend to a sale of this facility to New York."

Senator Lehman explained that by saying that his "safeguards" would all have to be approved by the Con-

gress, which seemed to satisfy his brother solon for the time.

PRESIDENT Machold of Niagara Mohawk gave some industry figures to the committee regarding rural power costs in the state.

The average cost per kilowatt hour, residential and farm for the five companies he represents, was 3.45 cents in 1950. The national average, he said, was 2.88. But, since Consolidated Edison, which services New York city, and no farms, should be excluded from the averages, the residential and farm cost was 2.75 cents per kilowatt hour.

For the four companies serving rural patrons, the average per kilowatt hour to farms in 1950 was 2.32 cents; the national average paid by farm customers, 3.18 cents. In the same year, he related farm customers in the four company areas used an average of 3,663 kilowatt hours per customer, while the national average was 2,335 kilowatt hours. Residential and farm service combined from the upstate companies: the average consumption was 1,923 kilowatt hours; national, 1,830 kilowatt hours.

The total of REA customers throughout the country is 3,250,000. Six REA co-operatives in New York state have 4,400 customers in all classes of service; that is one-tenth of one per



**Q** "THE policy of the Utility Workers Union, as distinguished from the CIO at the national level, is very definite. It favors government flood control, navigation improvements, irrigation and reclamation, and building of incidental power plants where feasible and desirable. But it is opposed to government DISTRIBUTION of power when private facilities are adequately available at fair and equitable rates."

## PIE IN THE SKY OVER NIAGARA

cent of New York state's total electrical patrons.

Machold pointed to Wickard's statement that REA customers bought for resale in 1950, 12,400,000 kilowatt hours, one-twentieth of one per cent of the kilowatt hours consumed in the state for that calendar year. This, the president of Niagara Mohawk said, amounted to about 3,500 kilowatts of electricity.

This would be infinitesimal in relation to the 1,132,000 kilowatts of capacity which the redevelopment of Niagara is expected to produce.

"As I understood Mr. Wickard's testimony he also sought to justify the proposed legislation . . . that within . . . Pennsylvania and New York there are 15,000 farm customers without central station service. . . . Senator Lehman used the figure 20,000.

"According to the report of the Administrator of REA for . . . 1950 . . . there are 6,355 unelectrified farms in New York state . . . 4.3 per cent of the total farms in the state. There are very few states, if any, that can show a better ratio of electrified farms," Machold asserted, adding that in the TVA territory, 18 per cent of the farms are still without electricity.

**H**E then quoted from a statement by Chairman Benjamin Feinberg, of the public service commission of New York state, made in connection with a celebration of the fiftieth anniversary of the first rural line installation in the state:

By the end of 1950 there were 52,000 miles of rural distribution . . . service to 139,000 homes on farms. Only 4 per cent of the total . . . farms . . . located along electric lines, and

have service available, are for one reason or another not connected to the lines . . . with the 93 per cent . . . which take service . . . at least 97 per cent of all farms in the state . . . 1945 census . . . enjoy or have available central station electric service. There are not many . . . that do not have electricity and in general those . . . are either quite isolated, or their continuance as farms is doubtful.

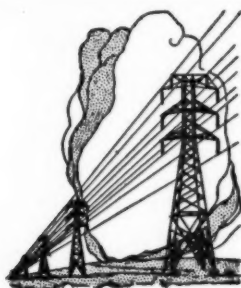
These figures so impressed Senator Carlson that he remarked, "As one member of this committee, I am very anxious to get electricity to the farms of this nation. And I would assume . . . [from] . . . your statement . . . private companies do service the farms . . . as best you can and as many as you can where there is at least economic justification . . ."

Senator Dworshak wanted to know if any industrial plants had refrained from locating in the company service area because of unattractive rates.

Machold replied, in part, "These industries make (projections) currently as to what the demands are going to be three, four, and five years from now, and they add up to very astonishing figures. Those plants are not only planning . . . but many . . . are being located in our territory at this moment."

He named prospective customers as General Motors at Syracuse; Ludlum Steel, Albany; General Electric, Utica; Ford Motor, Buffalo; Bethlehem Steel, a \$100,000,000 plant at Buffalo.

**M**ACHOLD later submitted a letter of explanation of prospective private company rates, which said in part, "If the entire additional hydroelectric power at Niagara, in the estimated amount of 7.9 billion kilowatt hours, is made available to our compa-



### Senate Committee Hears about Rural Power Costs

**P***RESIDENT Machold of Niagara Mohawk gave some industry figures to the committee regarding rural power costs in the state. The average cost per kilowatt hour, residential and farm for the five companies he represents, was 3.45 cents in 1950. The national average, he said, was 2.88. But, since Consolidated Edison, which services New York city, and no farms, should be excluded from the averages, the residential and farm cost was 2.75 cents per kilowatt hour."*

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nies in substitution there for a like amount of steam power, which would otherwise have to be constructed, the reduction in our costs would approximate \$17,000,000 a year."

He closed his letter with these words, "I can state categorically that if Congress permits our private utility companies to undertake the redevelopment at Niagara, substantial savings will result in our cost of rendering service. Those savings must be taken into account by the public service commission of . . . New York . . . which exercises complete jurisdiction over our rates. . . . Our rates for farm and domestic customers have been reduced regularly and substantially over the years. Since we . . . must operate on a strict cost-of-service basis the Congress has assurance that all of the redevelop-

ment savings will inure to the public use and benefit."

For the Department of the Interior William E. Warne, then Assistant Secretary, appeared in favor of the Lehman-Roosevelt plan. He said that his colleagues had marveled at the waste over the years in the failure to develop Niagara fully. Warne said the state bill would "amount to a surrender of elementary responsibilities for the national defense . . . preservation of Niagara Falls and . . . discharge of . . . international obligations assumed by . . . the treaty. . . ."

**S**ENATOR McClellan wanted to know what was the difference between the state and Federal development bills, except during construction—inasmuch as S 517 would turn the completed

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structure over to New York state. Warne replied that the "safeguards" were the main difference. The Senator then wondered, in effect, how they could trust the state *after* construction and not *before*. The "agreement" was the explanation given.

So, Senator Dworshak asked, if "in that agreement, the Federal government might stipulate certain conditions which might not be acceptable to the [state of New York] . . . what would happen then?"

Warne didn't know. But he considered it just as possible an agreement would eventually be reached. Senator Dworshak doubted this very much.

After some qualification, Warne said, "we would do a conscientious job," if the President had to turn the project over to Interior in default of an agreement, and that § 5 of the 1944 Flood Control Act would govern the operation.

He said state financing, construction, and operation would be "an unprecedented procedure," stressing the inexperience of the state. He repeated the "safeguards" of the "preference" clause. Under no circumstances would his department approve private construction and operation. Under pressure from Senator McClellan, he said this was because of the close relationship between the St. Lawrence and New England and other contemplated developments, relationships which could not be divorced.

Senator McClellan agreed to the extent of failing to see merit in the Federal government building the project simply to turn it over to the state, but he apparently did not object to the private development plan.

Senator Dworshak pointed up this

phase of the testimony, as follows: "We might just as well admit, if we are honest with ourselves, that it is inevitable that there shall be some obstacles to surmount before the Federal government would agree to turn over the facilities to the state."

"It is obvious. It is not just an 'if,' or an 'iffy' question. It is inevitable, so far as I can see, at this time."

Senator Lehman objected to this assumption.

So much for the case before the congressional committee. Let us see next what the press of the area thinks about it; and the people, as represented by union labor.

The Rochester *Democrat and Chronicle* said, "Now the principle of private *versus* government ownership comes squarely to the front. Those who have been pressing for government control, either Federal or state . . . have the burden of proof to show that we ought to move further along the road to socialization of public utilities," and ". . . the five companies . . . have the means, the experience, and the equipment, as well as the will to do a needed job."

The Buffalo *Courier Express* declared, "Senators Lehman and Ives, both authors of power bills, seem to be in agreement on one point—that the development should be done with public monies, and not as in the past, by private enterprise . . . The cry of those who favor public ownership is that power would be produced more cheaply. Let us examine the thought. The user of power might get it a shade more cheaply, although that is problematical, but at the same time the user is a taxpayer, and would be making up

## PUBLIC UTILITIES FORTNIGHTLY

the difference in hidden taxes. There is no getting away from the fact that public monies, so lightly regarded in these days by our legislative representatives, is actually money taken legally from the pockets of you and me, and the companies for which you and I are working."

**T**HE Oswego *Palladium Times*, after pointing out that hydraulic energy development at Niagara has been in the hands of private enterprise for more than 125 years, remarks, "There is no cogent reason . . . [why] there should be a change in policy . . . if there is any intent of putting the often praised private enterprise system into active practice."

"The Miller stand," said the Niagara Falls *Gazette*, "in defense of the 'traditional principle of American economy' is in sharp and pleasing contrast with some legislators, who, while giving lip service . . . have conceded their defeat . . . because of the strength of forces advocating the socialistic principles of government ownership. Compromise and expediency are the prime foes of traditional American ideals and every time we surrender to them we sacrifice a portion of our national heritage."

This is from a newspaper which serves the people in the area who are said by Senator Lehman to love Niag-

ara Falls and the river more than any other people love their rivers. They have no fear, evidently, of the big bad wolf who sells them electricity. But they seem to be concerned about the prospect, as Mr. Miller reported, of having their taxes raised to pay for a project which should cost them, or the nation, not a penny.

And from the Binghamton *Press*, decrying either state or Federal development: "Private development would mean savings for taxpayers and consumers, and it would thwart the socialists and totalitarians who stand to profit by further centralization of government . . . by acquisition of economic power and controls over the lives of formerly free Americans."

The Ithaca *Journal* gets to the core of things thus: "If it were impossible to develop Niagara power privately there might be some reason for public development." And concludes, "Congress should have no hesitancy in adopting the Miller Bill."

**A**s for labor, John W. Edelman, Washington representative of Textile Workers Union of America, was for the Lehman-Roosevelt idea, as he said the parent CIO was in favor of public operation of such works. He was not for socializing private industry, he admitted, and when asked if he would like the Lehman-Roosevelt prin-



**Q** "REA Chief Wickard . . . said he was for the Lehman Bill because it would go a long way toward providing more and cheaper power for rural users in the Northeast. He alleged that rural co-operatives in the state buy all their power from private companies, at a cost of 1.13 cents per kilowatt hour, as against .86 cents for all REA co-ops (1950)."

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ciple applied to the textile industry, with its products handled through post offices and all private industry eliminated, he failed to concede the analogy.

He said his union was interested in Niagara and the Northeast because the high cost of power was a contributing reason for the shrinkage of that industry in the area. Numerous conventions of CIO had declared for public development, transmission, and distribution of hydroelectric power throughout the country. But he admitted that William J. Pachler, national secretary-treasurer for the CIO Utility Workers of America, had opposed this idea.

Edelman declined to place himself in the position of a utility worker and to say that he would be of the same opinion regarding Niagara as are those workers. He had heard the testimony of utility workers' union representatives during the hearing. This is what he heard:

### *Pie in the Sky!*

THE CIO Utility Workers Union has jurisdiction over more than 90,000 workers, 30,000 with Consolidated Edison of New York, and including the workers in Boston, Detroit, Cleveland, Dayton, and as far west as southern California. The union's members claim that they serve over 50,000,000 people with either gas, electricity, or water, or a combination of the same.

The policy of the Utility Workers Union, as distinguished from the CIO at the national level, is very definite. It favors government flood control, navigation improvements, irrigation and reclamation, and building of incidental power plants where feasible and desirable. But it is opposed to govern-

ment *distribution* of power when private facilities are adequately available at fair and equitable rates.

"We believe," Mr. Pachler said, "that if and when the Niagara or St. Lawrence power project is completed then this policy should be placed in operation."

Private companies, he said, should not be given any special consideration, adding later that complaints about high rates should be referred to the states' regulatory authorities.

"Our union urges this committee not to cure the disease of high, unjustified electric rates by killing the patient, the private light and power companies of this country.

"They, even though a great number of them failed in the past to render adequate service and give fair rates to the consumers, the vast majority are doing their job today.

"Even though our union has suffered, and is still suffering the anti-labor tactics of some light and power companies, we accept the challenge in the great American spirit."

RELATING some of the difficulties of the union at present and in the past, he said, "... yet, in spite of these abuses ... do we cry out for the government to take them over? We do not! ... eventually ... the employees through their unity will get a square deal and a decent living for their companies.

"And, we take off our hats to the light and power companies who are doing a grand job of producing the power that helps make our country great, and at the same time deals fairly with our union.

"... Our over-all concern," he went



### CIO Union Hits Public Power Expansion

**"M**<sup>CMAHON</sup>'s committee recommended a statement of policy which commented that 'Approximately one-fifth of the power generated in America today is distributed and sold by government agencies. We believe that further encroachment of government into the utility industry should be discouraged, except in . . . national emergency . . . that the best interests of all the people can best be served and secured through collective bargaining in investor-owned public utility corporations . . .'"

on, "in this great fight is twofold . . . to preserve the free enterprise system in America in our industry, and the other to bring to . . . our union the best working conditions and best wages in America."

Urging private handling of the project, he said he feared the "preference" feature might be a stumbling block in the proceedings before Congress, and, in closing, said, "Now, I recognize that if the state government does not agree with the congressional ideas, they will say, 'Either you agree or else we will take it over.' And, I believe that will be the outcome that we are afraid of."

And, why did they fear such an outcome? Andrew J. McMahon, president of Local 1-2, Utility Workers Union of America (CIO), told the committee that his local has 23,000 members, it

favors the Miller private industry bill, and is opposed to the others, believing that if private enterprise can do the job at fair and equitable costs and prices, unions should support that effort.

**"U**<sup>N</sup>DER any type of government ownership or operation of electric utilities," the official from New York city said, "unions find themselves faced with three serious problems. They are far-reaching in their influence, and affect the common good of society as a whole.

"Briefly examine . . . and you will understand why intelligent unions must accept with caution any division or subdivision of government as an employer:

"What assurance have we that the

## PIE IN THE SKY OVER NIAGARA

basic philosophy of the Davis-Bacon Act (compelling government to pay prevailing rates of wages to certain grades) will be in any legislation? . . . There has been no move in this direction," he stated, adding, "Can [utility unions] enter into genuine and effective collective bargaining contracts similar to those we presently have with private utility companies? [as provided by Wagner Act]."

After stressing the need for more taxes not only in governments, but within unions, he asked:

Can it be said that any governmental agency . . . in the light and power field pays the same local, state, or Federal taxes which private enterprise companies, or the users of private power are required to pay?

We do not feel that the taxpayers of one section should indirectly pay part of the electric bill charged by government operation of electric facilities in other parts of the country.

Excerpts of a report to a CIO Utility Workers' convention by a public power committee, headed by McMahon, were entered in the hearing minutes. His committee "looked with alarm" upon efforts of "socialistic and even more collective-minded form of government advocates, who would have us surrender our basic concept of the American way of life, to the creeping paralysis of the all-powerful state."

MCMAHON'S committee recommended a statement of policy which commented that "Approximately one-fifth of the power generated in America today is distributed and sold by government agencies. We believe that further encroachment of

government into the utility industry should be discouraged, except in . . . national emergency . . . that the best interests of all the people can best be served and secured through collective bargaining in investor-owned public utility corporations . . . we shall object (to water-power projects) being used as a means of destroying tax-paying utility companies, who, under proper regulation, are furnishing adequate service."

The policy statement ended urging all union officials to use every means available, not only against further nationalization, but for proper regulation of utilities as "obligations to their consumers and to their employees."

A written statement issued by Pachler in addition to his oral testimony listed dissatisfaction of unions with restrictions under which they work for TVA, which embraced, it was said, no political activities, no spare time work for other employers, no striking, and many other things he named, with the same criticism for other public power projects, such as Columbia and Hoover dam.

THESE unionists were corroborated by a rival, Robert W. MacGregor, of Mineola, AFL business manager of Local 1049, International Brotherhood of Electrical Workers, representing 75 per cent of union workers in light and power industries, private and public.

His prepared statement said their experience with public power has been "bitter."

"In all of them, REA's, public utility districts, municipal and state . . . we have had an unending struggle—often vain—to obtain fair and decent labor relations."

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His union, he said, was against the bills for both state and Federal development for Niagara because it would be faced with a repetition of these struggles.

All these projects have two things in common, he said, "A tendency to found a project with public money and then, with the aid of more public money, to threaten, or actually construct duplicate production and transmission systems to force the sale of privately owned facilities," and "refusal to observe union standards which privately owned utilities have respected for years."

About one-eighth of the country's utility workers, roughly 37,500, are in New York state, he said, and private companies through expansion promise more jobs, which he fears would not be the case if either government handled Niagara.

After very close study, the unionist said, he found the record "somewhat baffling" and utterly disquieting, charged that TVA no longer was a flood-control project, that it is "primarily and overwhelmingly a power project."

Citing chapter and verse concerning project developments he had in mind, he commented: "The camel's-nose-in-tent development is the rule, not the exception."

SENATOR McClellan asked MacGregor if his union preferred the

project be constructed by private enterprise to avoid the problems which he charged have arisen with government.

"Yes," replied MacGregor. "You must realize as far as IBEW is concerned, that we have made a complete change in our policy. We supported REA's; we supported Federal power projects. But in the last few years we have seen that they are not what they are cracked up to be; that the burden is being placed on someone's shoulders—perhaps not the consumers of electricity, but somebody has to pay the bill somewhere . . ."

Declaring that neither state nor Federal bills gave protections unions need and demand, and now enjoy, he concluded: "We have the certainty of a steadily growing number of good jobs, with good working conditions in the present and contemplated expansion of privately owned power companies in the state of New York. *We will not willingly sacrifice that sure and substantial diet for a promise of a large slice of future pie-in-the-sky.*" (Italics supplied.)

Senator McClellan, from the chair, added an illuminating footnote to the testimony of MacGregor, when he soliloquized:

"I sometimes wonder like you, how far we are going toward socialization and are we going to wind up finally by having everyone work for the government?"

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“NATIONAL security rests on the total position of the United States, including its fiscal and monetary status.”

—M. S. RUKEYSER,  
Columnist.

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# Washington and the Utilities



## Gas Act Amendments

THE recent action of Senator Bricker (Republican, Ohio) in submitting, on February 6th, an amendment to his 1951 bill (S 1084) to change the Natural Gas Act is the outgrowth of activity by the legislative committee of the National Association of Railroad and Utilities Commissioners. Senator Bricker's original bill, which had the bipartisan support of Senator O'Connor (Democrat, Maryland) was frankly designed to circumvent the sweeping "obiter" impact of the U. S. Supreme Court decision in the East Ohio Gas Company Case. Bricker's original bill would have stopped FPC control over natural gas pipelines at the state line for any gas company exclusively operating within the confines of a single state.

But that bill was a little too broad for the Federal Power Commission to accept. And the NARUC knew that FPC objections, alone, could stymie any chance of enactment of a bill at this session, or even in future sessions. The state commissions' interest, of course, is in the preservation of state commission regulation, protecting its jurisdiction from encroachments by the FPC under the open door invitation provided by the East Ohio decision. At the NARUC convention in Charleston last October, it was decided to make another effort to close this door with legislation that would make an orderly demarcation between Federal and state control—with the consent of the FPC, if possible.

Such a bill was unanimously recommended by the NARUC Executive Committee, which met in Washington late in January. The revised bill would amend the Natural Gas Act as follows: (1) It

would exempt gas companies engaged in moving gas destined entirely for local or intrastate distribution and consumption, even though the wholesale supply so distributed originates outside of the state; (2) transportation facilities for gas to be consumed within a single metropolitan area are not to be considered "interstate transportation" coming within the act. A "metropolitan area" was defined as an "integrated community" within which the FPC finds that the transportation of gas does not require FPC regulation to protect national interest.

The actual text of the proposed additions to § 1 (of the Natural Gas Act) is as follows:

(c) The provisions of this act shall not apply to a person engaged in or legally authorized to engage in the local distribution of natural gas or to any facilities used or to be used by such person to transport, whether or not in interstate commerce, natural gas received by such person within or at the border of a state to points of consumption within such state;

PROVIDED HOWEVER, That this subsection shall be operative only if none of such facilities is used or to be used for or in connection with the sale of natural gas in interstate commerce for resale or for or in connection with the transportation of natural gas in interstate commerce for hire.

PROVIDED FURTHER, HOWEVER, That the transportation of gas owned jointly or severally by two or more such persons through such a facility or facilities owned and operated singly or jointly by one or more of such persons, with or without charge, shall not be

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deemed transportation of natural gas in interstate commerce for hire within the meaning of the foregoing proviso, if such facility or facilities do not extend beyond a single metropolitan area and if all gas delivered or transported through such facility or facilities is ultimately consumed within such metropolitan area.

(d) To the extent that exemption from the provisions of this act is afforded by this section, the matters exempted are hereby declared to be matters primarily of local concern and subject to regulation by the several states.

It will be seen from the foregoing that the latest version of the NARUC recommendation is somewhat more restrictive than the original Bricker-O'Connor Bill. For example, any sale for resale or further transportation, even if delivered within a single state, would still fall under FPC control. The chances of enactment of the revised Bricker-O'Connor Bill would seem to depend upon the pace of the congressional session, rather than upon major opposition. If the FPC is willing to go along, no opposition from any other administration quarter seems likely, although some outside consumer interests may develop independent ideas.

But the real obstacle which faces the new Bricker-O'Connor Bill is the procedural lag and inertia of the 82nd Congress. It is not at all impossible that with so many of the members anxious to do as little as possible during the session, and to make issues rather than settle them, even bills without substantial opposition can be left at the post, or forgotten in committee—until the last-minute rush to adjourn for the political conventions forecloses any chance of final action.

### *Northwest Power Problems*

WITH the controversial sale of Washington Water Power Company by American Power & Light Company

temporarily stymied in court, congressional attention has turned to other matters affecting power supply in that critical area. True, H. P. Carstensen, of the Washington Grange, made a little news by demanding that Senator Cain (Republican, Washington) and other Washington Congressmen see what was holding up the proposed sale to the Washington public utility districts. But since the matter is now locked up in procedure between the courts and the Securities and Exchange Commission, Senator Cain said he could think of nothing for any Congressman to do in the situation.

But Washington observers are still scratching their heads over some of the frank testimony given by Mobilization Director Wilson in answering questions about the government's latest defense program for aluminum production in Montana. It was late in January, in testimony before the Joint Committee on the Economic Report, headed by Senator O'Mahoney (Democrat, Wyoming), that Wilson ran into questions about aluminum production.

Wilson had pointed out that the government's program will increase the annual output of steel by an additional 12,000,000 tons; of aluminum by an additional 700,000 tons; of power capacity by an additional 30,000 kilowatts, with corresponding increases in production of other materials. All this is planned by the end of calendar year 1953. All the aluminum should be in by the end of calendar 1953. During the same period, Wilson expected that steel production would increase to 120,000,000 tons capacity. By calendar 1953, all the additional electric power needed for the program is expected to be on hand.

QUESTIONED by Senator O'Mahoney, Wilson distinguished between his approval of the St. Lawrence seaway, as an aid to getting iron ores for steel production, and his former opposition to the promotion of public ownership in the power business. Then, Representative Patman (Democrat, Texas) asked:

Although you do not approve of that

## WASHINGTON AND THE UTILITIES

particular project, you are not against the development of these hydroelectric power projects, generally, where they are feasible and practicable?

MR. WILSON. No, I am not against them. I am against them as public projects, yes, because I still believe in the free enterprise system. I think it is what made us what we are today, and I think that is pretty good, and I hate to see us weaken it by trying to be half socialist and half free enterprise.

REPRESENTATIVE PATMAN. You will not get any argument out of me on that.

MR. WILSON. Good! . . .

REPRESENTATIVE PATMAN. It occurs to me that we can very well give thought and consideration in the taking out of all the projects, selecting all the projects in the nation, where you can have flood control and water conservation which goes along with soil conservation, and also the development of hydroelectric power projects, without getting into the question of who distributes the power, that is not important at this stage of the proceedings; but do you not think that we should, in order to have maximum strength for the future, we should as quickly as possible try to develop all those projects in our country?

MR. WILSON. I think we ought to develop any projects that are a combination of flood control, and save the water against the day you want to use it for the benefit of the nation, yes. Power, yes, if it is really economical and if it is in locations where we really need it. But I think we fool ourselves a great deal, you know, by spending vast sums of the taxpayers' money to build a lot of power dams in one particular section of the country, and then because we have it, stick a lot of production up there that certainly does not belong in that part of the country, just because you can get 2-mill power, which the taxpayer is really paying for, you know, but you can get 2-mill power to make, let us say, aluminum.

I personally think that is the bunk. I think we are just fooling ourselves. . . .

SENATOR O'MAHONEY. Do you think it more important to get the power than it is to determine whether it shall be produced by public or private agencies?

MR. WILSON. Of course. You get the power, and fuss the other question out afterward.

REPRESENTATIVE PATMAN. That is right; I thoroughly agree with you.

SENATOR O'MAHONEY. Get the power first.

MR. WILSON. Yes. You would just be ages threshing out all the social questions about which comes first, the chicken or the egg or the means to pay for it, or what have you. I agree that we ought to go ahead and do it.

SENATOR O'MAHONEY. Regardless of this question of Socialism?

MR. WILSON. Then, I hope we take it away from adherents of that system some day, but that is another question.

SENATOR O'MAHONEY. Here is the question of the aluminum project in Montana where the Anaconda Copper Company wants to turn over to the manufacturer of aluminum and is using or plans to use the power developed at the publicly owned government project at Hungry Horse. . . . That is perfectly OK in the present emergency, according to your opinion?

MR. WILSON. Sure, I think it is all right. I think that is a silly place to make aluminum. I think it is silly, but who am I to judge, as long as you have got —

SENATOR O'MAHONEY. The judge is the Anaconda Copper Company.

MR. WILSON. As long as you have somebody who is sucker enough to do it, and the country is for it, that is all right—not with my money, if I had enough to do that. . . .

\* \* \* \*

P. S. No serious Senate opposition was expected to the appointment of Assistant Interior Secretary Dale E. Doty to the vacancy on the FPC.



# Exchange Calls And Gossip

## Cost of Capital

JANUARY was an exceptionally active month in the field of telephone rate decisions by state commissions. Twelve cases from as many different states were announced, including eleven Bell system company cases and one independent telephone company case in New York. The Southwestern Bell Telephone Company was involved in two of these cases—Kansas and Missouri. Northwestern Bell Telephone Company had three cases—Minnesota, Nebraska, and South Dakota. Southern Bell Telephone & Telegraph Company had four—Alabama, Florida, Kentucky, and Tennessee. There was one each for Illinois Bell Telephone Company and Wisconsin Telephone Company. The independent case came from New York, involving the Rochester Telephone Corporation.

A most noteworthy factor in most of these cases was the emphasis placed on "cost of capital." This apparent trend in the state commission decisions stresses what the Bell system companies have to pay for their capital (in order to attract financing needed to continue efficient operations and make necessary plant expansion).

But the results in terms of percentage of return allowed on the cost of plant were quite varied as between the different state commissions. Where return percentage allowed was stated at all, it ranged from 5.66 per cent in Nebraska to 6.5 per cent in Missouri. Intermediate allowances were: Alabama, 6.23; Florida, 6.12; Illinois, 5.2 (but primarily estimated in terms of annual cost of capital to the Bell system as of 1950—4.83 per cent); Kansas, 6.35; Minnesota, 6 and 6.25; South Dakota, 6; Wisconsin,

5.7. No specific findings were made in Kentucky, Tennessee, or the New York independent case.

PERHAPS an even more significant feature of this trend to "cost of capital" as a predominant element in fixing a reasonable rate of return was the recognition on the part of some commissions that such a determination, based solely on recent past experience of the Bell system (*i.e.*, cost of capital) was too static and not a safe criterion during a period of rising costs or inflation. For this reason, special recognition was given by the commissions in Florida, Kansas, Minnesota, and Missouri of the fact that cost of plant and equipment would probably rise, as well as the cost of capital, in the future. Similar general language occurred in the opinions from the Kentucky and New York commissions. This is in sharp distinction to the decision of the Illinois commission, which based the refusal of any rate increase in that state on a finding of reasonable return, keyed to the actual Bell system experience as to cost of capital (4.83 per cent) as of the end of 1950.

The actual amount of the respective increases allowed by the state commissions in these twelve telephone cases follows:

Alabama .....	\$ 3,655,921
Florida .....	2,124,540
Illinois .....	—
Kansas .....	4,725,000
Kentucky .....	2,732,000
Minnesota .....	4,933,000
Missouri .....	11,119,000
Nebraska .....	556,000
New York (Rochester) .....	1,355,000
South Dakota .....	1,080,000
Tennessee .....	3,750,000
Wisconsin .....	4,500,000

## EXCHANGE CALLS AND GOSSIP

### *No Western Union Probe*

CONTRARY to previous reports, no government investigation is likely to result from Western Union's disclosure that nearly 13 per cent of its voting stock has been purchased by John Fox of Boston. Although the announcement caused considerable eyebrow raising among Federal Communications Commission officials, it was pointed out that the FCC does not have regulatory authority over the financial affairs of interstate communications utilities. A top FCC official declared, however, that "we are definitely interested in knowing more about Mr. Fox." The Boston financier, a stockholder in several leading corporations and now the largest single investor in Western Union, indicated that he would welcome any inquiry.

Guesses were being made in financial circles as to the future position of Western Union President Walter P. Marshall. Marshall admitted that "obviously, Mr. Fox could conceivably dictate management policy if he so desired," but declared that "Western Union welcomes the advice of any stockholder, regardless of the number of shares that may be owned." According to Marshall, Western Union has 20,000 shareholders, "every one of whom is entitled to a voice in the management." From his Boston office, Mr. Fox stated that he had "no ideas with respect to changing the management of Western Union."

The Boston businessman has been notably successful in the real estate field, both in New York and Boston. He currently owns a controlling interest in Pennsylvania's natural gas fields and is reportedly interested in the teletype system owned by AT&T.

MEANWHILE, the constitutionality of a new Western Union rate on leased wire service was being studied by the FCC. The commission put off, pending a hearing in March, the operation of the new schedule which would restrict transmission of racing news over the company's leased wires to press associations, licensed radio and television sta-

tions, and publications with second-class mailing privileges. FCC officials said that six persons, all of whom use Western Union leased wires, had protested the new tariff.

### *May Appeal FCC Order*

THE Bell system may go to court to escape civil liability in gambling discrimination cases. In what may be a prelude to court action, the American Telephone and Telegraph Company and the Chesapeake & Potomac Telephone Company have petitioned the Federal Communications Commission for a rehearing on the commission's December opinion in *Katz v. AT&T*. In that decision, the commission ordered the companies to drop from their tariffs protective language which would relieve them from responsibility for discontinuing service used, or intended to be used, in violation of the law.

In their petitions for rehearing, the companies point out that several state commissions, including those of Ohio and California, now require communications carriers to suspend service when notified by a law enforcement agency that the service is being used in violation of the law.

### *Phone Union Scrap*

OPEN rivalry between CIO and AFL unions in the telephone industry is likely to be declared at any moment. At a recent meeting of the AFL executive council at Miami Beach, full AFL support was pledged to the IBEW in its efforts to organize the workers of the telephone industry at the expense of the CIO Communications Workers of America.

An announcement confirming the agreement is expected shortly from AFL President Green.

M. F. Darling has been named to head the campaign and admittedly he has a tough fight on his hands in attempting to dislodge the 300,000 telephone workers the CIO union claims to have organized in the Bell system. Green is expected

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to outline the reasons for the campaign and the objectives of the IBEW program.

Chief IBEW weapon probably will be sharp criticism of the CIO union for the manner in which it has been representing the interests of the telephone industry workers.

### *New REA Loan Contract*

**I**N the wake of an increasing number of complaints, REA has decided to revise its rural telephone loan contract, rather than attempt to explain its problems and complications with a question and answer pamphlet. A recent letter from REA Administrator Wickard to Colonel William C. Henry, head of the small company committee of the United States Independent Telephone Association, revealed that the loan contract and related documents would be revised as a result of criticisms with respect to various restrictive provisions of the present contract.

It has been feared in many quarters that these provisions would enable REA to enter the field of telephone company management, a matter that has caused a fair amount of controversy and which has been the subject of conferences between Wickard and USITA's committee on problems of small companies. Provisions of the new contract will probably be made known within the next few weeks.

### *Phonovision*

**M**ICHIGAN legislators may soon vote on a proposal to outlaw "phonovision" in the state. Senator Harold M. Ryan of Detroit announced his intentions of introducing a bill which would prevent television-telephone hookups to furnish programs to private set owners at a cost added to telephone bills.

The Michigan legislator said that his bill would permit "closed" channel television circuits for theaters, but would for-

bid them for bars, educational institutions, and private homes. "I want to forestall exploitation of the private set owner," Ryan declared, expressing the fear that companies would save their good programs for the more profitable showings on private circuits, assigning poorer programs to general reception.

Ryan stated that an experiment recently conducted in Chicago showed a preference among families for free television.

### *Desk-to-desk Telepictures*

**A**FACSIMILE telegraph that sends 3,000 words a minute was recently unveiled before the Armed Forces Communications' Association in the National Press Club in Washington, D. C. Admiral Joseph R. Redman (USN, Ret.), Western Union vice president in charge of government communications, said the new development "offers a solution to the problem of meeting the special military need for great speed in communications."

According to Admiral Redman, the possibility of atomic attack requires the fastest and most efficient type of communication if 150,000,000 people are to be alerted and directed to safety and if military defenses are to be dispatched at a moment's notice. A product of Western Union research, the High-Speed Fax can transmit and receive any written, printed, or picture material over any distance at a speed up to 3,000 words a minute.

The equipment demonstrated included the Autofax and the Desk-Fax. The Autofax, designed for use in public places, receives a telegram via a slot, similar to a mailbox. The machine's electric eye scans the message and sends a picture of it to Western Union. The Desk-Fax is a miniature machine with which the sender can transmit and receive telegrams instantly and automatically from his desk. There are already 5,000 of these in operation and another 5,000 are being installed.

# Financial News and Comment

By OWEN ELY



## *Material Allocations for the Utility Construction Program*

IN recent issues various angles of the utility expansion program have been discussed. It may be of interest to sketch briefly the general setup at Washington for scheduling and allocating metals and other scarce materials for completion of the program. The Defense Power Administration was first set up, but because of the confusion of its initials with those of the Defense Production Administration, the name was changed to Defense Electric Power Administration or DEPA. Clifford B. McManus, president of The Southern Company, was the first Administrator and was succeeded by James F. Fairman (vice president of Consolidated Edison on leave). Mr. McManus initiated a 27,500,000-kilowatt construction program covering the three years 1951-53 for "all plants contributing to public supply" (i.e., central power plants, both pub-

lic and private, but not including industrial plants supplying their own power needs, or foreign plants).

In translating the construction program into terms of materials needed, DEPA sets up "claims" for the materials required for the construction of power plants, substations, and electric transmission and distribution facilities. The engine and turbine division of the National Production Authority claims for the materials requested by the turbine and boiler manufacturers. Other items such as transformers and blowers are claimed for by the electrical equipment division and general industrial equipment division of NPA, respectively. On the whole, this division of claimant agency responsibility works relatively well, though scheduling is sometimes difficult due to the varying "lead" times of the individual segments of the power program.

THE 1951 utility construction program was substantially met with the addition of nearly 7,000,000-kilowatt capacity (5.7 fuel and 1.3 hydro), nearly 1,000,000 larger than in 1950 and slightly larger than the 1949 gain. Under Mr. Fairman's direction the program has been extended with the objective of 29,000,000 kilowatts over the next three years—9,100,000 kilowatts in 1952, 11,700,000 in 1953, and 8,200,000 for 1954. In addition, some 8,000,000 kilowatts are on the order boards representing the power requirements of industrial companies to

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meet their own power needs, and the orders of Canadian and other foreign utility agencies.

Due, however, to the fact that the several statistical studies for projecting power needs prepared by the FPC, EEI, and DEPA were largely based on load estimates prepared by individual companies, it was felt that some other method should be used to verify the results. As a result Clifford R. Beardsley, head of the power requirements branch of DEPA, made an extensive survey based on the "Use Category Summation" method. For example, the aluminum industry with its heavy reduction needs is being virtually doubled in capacity, with resulting increased power requirements. The steel industry is expected to expand its capacity about 20 per cent, so that the amount of electricity used by steel companies could (with qualifications) be increased by the same percentage. By going down the line from one industry to another, and including an estimate of residential use based on projected building of new homes, etc., the over-all kilowatt-hour demand was thus estimated.

### \*UTILITY NEW MONEY FINANCING IN JANUARY, 1952

<i>Electric Utilities</i>	<i>Millions</i>	<i>% Increase Over 1951</i>
Bonds .....	\$ 73	D 16%
Preferred .....	20	185%
Common .....	33	700%
Total .....	\$126	29%
<i>Gas Utilities</i>		
Bonds .....	\$ 53	43%
Preferred .....	9	— #
Common .....	—	— #
Total .....	\$ 62	48%
Total Electric and Gas .....	\$178	27%

\* As compiled by the Irving Trust Company.

# No preferred stocks were sold in January, 1951, and \$5,000,000 common stocks were sold.

**T**HIS DEPA survey was completed some months ago and seemed to substantiate fully the earlier estimates. However, Administrator Manly Fleischmann of DPA also appointed the Morehouse Committee (dubbed the "Four Horsemen") to make an impartial analysis of the DEPA program. As noted in our last issue, the committee came up with the conclusion that the program was very sound and that it did not overestimate power requirements. In fact, in some quarters it has recently been estimated that another 2-3,000,000 kilowatts might have to be added to the 1954 program. However, early in February Washington reached a decision to "ease" the defense program and spread the aircraft expansion goal over an additional year. If this decision was reached merely because it was obvious that present goals could not be met in the allotted time, the need for electric power would not be affected. But to the extent that actual defense production may be scaled down during the years 1952-54, it may not prove necessary to step up the 1953-54 utility construction program, unless the slack in the defense program is to be taken up by greater production of heavy consumer goods. Perhaps the major determinant may be the speed with which the atomic energy program is pushed.

In our opinion, DEPA is doing a good job in appraising future demands for electricity, although the recent cutback in the defense program may permit some change in utility objectives. There may, however, still be some confusion (only partially cleared up by the Morehouse Report) over the actual amount of construction required to supply these demands adequately. In other words, some attention might well be centered on analyzing *capability* of new steam plants as compared with name-plate ratings, the percentage of time during the year which they can safely be operated at full load, etc.

Then the question remains as to whether it is really necessary to use the annual peak load as the measure of demand—i.e., whether it is necessary to pro-

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vide much margin of safety over *peak* load, when the *average* load for all but a brief part of the year may be substantially lower. Also, it would be interesting to have a statistical appraisal of just how much of the peak load can be handled by temporary expedients such as decreased voltage.

A MAJOR headache in the utility construction industry is the insatiable demand for the red metal copper, which remains in short supply. During World War II the Treasury Department yielded some of its hoard of silver for temporary use in bus bars, because of the copper shortage. Such a drastic remedy is not being used now, but aluminum is being substituted wherever possible—it is currently being made available for use in the construction of generators and perhaps for other uses.

### *"Trying to Keep the Books Straight"*

As noted in this department in the December 20th issue, it is particularly difficult these days for the utilities to "keep the books straight" and make earnings statements reflect accurately the results of the year's operations. Accelerated amortization, special charge-offs in connection with financing, and various nonrecurring charges, tend to distort the earnings picture and make it difficult for the stockholder to discover how well his dividends are protected. Doubtless these accounting vagaries also disturb the regulatory commissions which are trying to appraise earnings in relation to rates. Possibly one solution would be to make greater use of surplus account for special adjustments than is now being done. The following letter received from E. E. Roll, assistant to the general accountant of The Detroit Edison Company, commenting on our discussion, is an interesting contribution to the problem:

"... [reference was made] to three types of deductions which quite often provide income tax reductions without proportional charges against income on the

books. These are depreciation, interest charged to construction, and certain other items which may be subject to amortization bookwise but are required to be deducted in their entirety for income tax purposes. This is not a complete list. It is my purpose to add to it and also to explore the possibilities of avoiding some of the distortion which results from present generally accepted methods of treatment.

"IN the matter of depreciation the taxpayer seems to be between the devil and the deep blue sea because of the Treasury rule of 'allowed or allowable.' This rule means that the amount of depreciation which will be recognized for income tax purposes is that which *is allowed* or that which *may be allowable*. Hence, if the taxpayer fails to deduct all that is allowable he may still be held to have done so in any future determination in which depreciation is a factor. Once the Treasury Department agrees to a depreciation rate for the taxpayer, then he is almost forced to go along with it or run the risk of losing a part of his depreciation deduction entirely. Of course, he has the other alternative of bringing his book depreciation charge into agreement with the income tax figure if he thinks the regulatory commission will recognize the higher amount for rate purposes...

"We don't know that the depreciation base is the same in both cases. We do know that Treasury rules with respect to abandonment of property are quite tough. Accordingly, property written off the books might very well still be subject to depreciation taxwise. On the other hand it is common practice to capitalize interest and other items which for tax purposes are immediately deductible and hence do not become a part of the tax depreciation base. Thus, the question as to uniformity of depreciation base for book and tax purposes can be answered only by knowledge of the individual circumstances.

"TURNING to interest charged to construction, it is obvious that

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material amounts are involved in view of the huge expansion program now under way. The figure of \$38,000,000 was given as the total amount of interest capitalized by all class 'A' and 'B' utilities in 1950 (FPC statistics). Not mentioned was the fact that many utilities also capitalize taxes during construction, pension costs applicable to construction employees, and injuries and damages incurred on construction jobs. How much such items might amount to in the aggregate is anyone's guess.

"At least it is evident that under present generally accepted practices followed in charging such costs to construction, the result will be a substantial 'overstatement' of earnings. But in this case there is a remedy. It follows logically from a consideration of just what it is we are attempting to do when we capitalize interest, taxes, pensions, and injuries and damages. It seems to me that our objective is to get into the plant accounts the correct cost of the property being built.

"**W**E can all pretty well agree that if we tie up borrowed funds for a considerable length of time in an extended construction project we are entitled to capitalize the cost of these funds until such time as they become productive. The question is, what do they cost us? If we sell \$20,000,000 of 3½ per cent bonds at par and the entire proceeds are tied up for a year, the interest paid thereon is \$700,000. But is that our true cost if by reason of paying such interest we reduce income taxes \$350,000? I would argue that the correct amount to be capitalized is the net cost of \$350,000. And the same principle would hold with respect to taxes, pension costs, and injuries and damages capitalized.

"Undoubtedly the \$38,000,000 mentioned above as being the total amount of interest capitalized in 1950 is made up in part of a theoretical cost of construction funds generated internally (principally additions to surplus and depreciation funds) or provided by the sale of equity securities, as well as actual interest on borrowed funds.

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"**W**ITH respect to capitalizing interest on funds generated internally or provided by the sale of equity securities I should like to state here my own personal conviction in opposition to this practice. My objection is not that these funds do not cost something, but simply that by capitalizing a rather arbitrary amount we create a corresponding amount of additional book net income which thereby becomes available for dividends. To me this is mere bookkeeping legerdemain which misleads the reader as to the actual earning power of the business.

"Another type of transaction which produces distortion results from the refunding of bonds. For income tax purposes the redemption premium and other costs of retiring an issue, plus the unamortized balance of any expense or premium thereon, are deductible in the year in which the transaction occurs. Quite often, however, these are material amounts and there is justification for amortizing them for book purposes. This means that earnings reflect a substantial tax reduction without bearing the corresponding charge which made the tax reduction possible.

"A good case can be made here for charging off these refunding costs against retained income, despite a growing tendency on the part of some to bar all charges to retained income. It should then be permissible to offset the tax reduction arising therefrom by a charge to Income Deductions (below the line) and a credit to Retained Income. By this method net income is unaffected by such an extraordinary nonrecurring transaction.

"This writer has already outlined a method of accounting for special 5-year amortization of defense facilities covered by necessity certificates, which will avoid distortion of earnings. [See 'Accounting for Tax Amortization of Defense Facilities,' by E. E. Roll, December 20, 1951, issue of PUBLIC UTILITIES FORTNIGHTLY.]

"**T**HERE are, of course, other differences between book figures and

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income tax figures. Many companies are amortizing plant acquisition adjustments, organization expense, capital stock expense, and similar intangibles which have no determinate life and hence are not considered to be amortizable for income tax purposes. Such instances produce the opposite effect of the items discussed above since net income is reduced to the full extent of the charges without any tax benefit.

"It is doubtful if the time will ever come when the taxing statutes are in complete agreement with accounting practice. However, in those areas where a remedy is possible there would seem to be a real need for taking steps to avoid the distortion of earnings which now exists."

### *The Utilities' Outstanding Dividend Records*

**I**n proportion to their numbers, utility stocks undoubtedly have more long dividend records than any other group of securities.

Following is a partial record for electric and gas companies:

American Gas & Electric .....	1910
Boston Edison .....	1897
Cincinnati Gas & Electric .....	1853
Cleveland Electric Illuminating ....	1900
Commonwealth Edison .....	1890
Connecticut Light & Power .....	1922
Connecticut Power .....	1916
Consolidated Edison of N. Y. ....	1885
Consolidated Gas of Baltimore ....	1910
Consumers Power .....	1913
Detroit Edison .....	1909

Houston Lighting .....	1922
North American Co. ....	1909
Pacific Gas & Electric .....	1918
Philadelphia Electric .....	1902
Potomac Electric Power .....	1904
Southern California Edison .....	1910

Records for many of the smaller electric and gas utilities are difficult to compile because nearly all of them were controlled by holding companies until around 1940 or later. It seems probable, however, that nearly all of these companies (except where overcapitalized) paid regular dividends to the holding companies which controlled them, although such payments were, of course, subject to the over-all policy of the holding company management and were frequently irregular in amount.

**A**MONG the Bell telephone companies, American Telephone and Telegraph has paid dividends since 1881, New England Telephone & Telegraph since 1886, Cincinnati & Suburban since 1899, Mountain States since 1911, and Pacific Telephone & Telegraph since 1925.

Among the gas companies are Pacific Lighting paying since 1908, Washington Gas Light with its record since 1866, Providence Gas since 1850, Springfield Gas Light since 1853, and United Gas Improvement since 1885. Among the water companies, Hackensack Water's record goes back to 1886.

Can any other industry match this record?

### CURRENT YIELD YARDSTICKS

	Recent	1951-52 Range		1950 Range	
		High	Low	High	Low
U. S. Long-term Bonds—Taxable .....	2.72%	2.75%	2.39%	2.42%	2.15%
Utility Bonds—Aaa .....	2.94	3.09	2.64	2.69	2.55
—Aa .....	3.00	3.18	2.70	2.74	2.63
—A .....	3.22	3.32	2.82	2.87	2.75
—Baa .....	3.55	3.58	3.21	3.21	3.14
Utility Preferred Stocks—High-grade ....	4.10	4.25	3.77	3.82	3.70
—Medium-grade ..	4.52	4.71	4.19	4.25	4.13
Utility Common Stocks .....	5.37	6.11	5.37	6.43	5.31

Latest available Moody indices are used for utility bonds and preferred stocks; Standard & Poor's indices for government bonds and utility common stocks.

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## CURRENT UTILITY STATISTICS AND RATIOS

	Unit Cost	Latest Month	Latest 12 Mos.	Per Cent Latest Month	Increase Latest 12 Mos.	Date
<b>Operating Statistics (December)</b>						
Output KWH—Total .....	Bill. KWH	33.1	370.2	8%	13%	10/24/5
Hydro-generated ..	"	9.1	—	5	—	10/31
Steam-generated ..	"	24.0	—	12	—	11/1
Capacity .....	Mill. KW	75.5	—	10	—	11/2
Peak Load (November) .....	"	65.9	—	11	—	11/9
Fuel Use: Coal .....	Mill. Tons	9.6	—	2	—	11/15
Gas .....	Mill. MCF	52.7	—	19	—	11/15
Oil .....	Mill. Bbls.	6.3	—	D1	—	11/21
Coal Stocks .....	Mill. Tons	38.5	—	21	—	11/29
<b>Customers, Sales, Revenues, and Plant (November)</b>						
KWH Sales—Residential .....	Bill. KWH	5.0	56	14%	14%	12/7
Commercial .....	"	3.8	44	8	10	12/12
Industrial .....	"	11.6	134	8	15	12/14
Total, Incl. Misc. ..	"	27.1	312	8	11	12/20
Customers—Residential .....	Mill.	29.9	—	4	—	12/20
Commercial .....	"	4.3	—	1	—	1/9/5
Industrial .....	"	.6	—	3	—	1/24
Total .....	"	36.9	—	4	—	1/29
<b>Income Account—Summary (November)</b>						
Revenues—Residential .....	Mill. \$	143	1,625	12%	11%	1/31
Commercial .....	"	103	1,198	8	8	12/5
Industrial .....	"	129	1,474	9	13	12/10
Total, Inc. Misc. Sales ..	"	411	4,741	9	10	1/10
Sales to Other Utilities ..	"	36	394	9	5	1/24
Misc. Income .....	"	15	206	27	7	10/24
<b>Expenditures</b>						
Fuel .....	"	77	853	13	13%	10/31
Labor .....	"	86	1,006	7	10	11/14
Misc. Expenses .....	"	65	784	D2	3	11/19
Depreciation .....	"	39	470	7	9	11/20
Taxes .....	"	99	1,125	21	23	12/4
Interest .....	"	24	278	9	8	12/5
Amortization, etc. ....	"	1	23	35	4	12/19
Net Income .....	"	71	802	9	D2	1/11
Preferred Div. (Est.) .....	"	10	117	4	6	1/23
Bal. for Common Stock (Est.) .....	"	61	685	11	D2	1/23
Common Dividends (Est.) .....	"	44	532	8	8	10/19
Balance to Surplus (Est.) .....	"	17	153	55	D7	10/21
<b>Electric Utility Plant (November) ...</b>						
Reserve for Deprec. and Amort. ....	"	\$20,499	—	9%	—	12/4
Net Electric Utility Plant .....	"	4,200	—	8	—	12/5
	"	16,299	—	10	—	12/19
<b>Life Insurance Investments (January 1st-January 26th)</b>						
Utility Bonds .....	"	—	39	—	D16%	1/2
Utility Stocks .....	"	—	5	—	121	1/2
Total .....	"	—	44	—	26	12/1
% of All Investments .....	"	—	3%	—	D37	12/1

# FINANCIAL NEWS AND COMMENT

## PRINCIPAL PUBLIC OFFERINGS OF UTILITY SECURITIES

October 20, 1951, to February 10, 1952

Date	Amount Mill.	Description	Price To Public	Gross Spread (Points)	Offer- ing Yield*	Moody Rating
<b>Mortgage Bonds</b>						
10/24/51	\$ 3.5	Wis. Mich. Pr. 1st 3½s 1981 .....	102.31	.65	3.50%	A
10/31	9.0	Utah P. & L. 1st 3½s 1981 .....	101.38	.29	3.55	A
11/1	15.0	Ohio Power 1st 3½s 1981 .....	102.77	.65	3.23	Aa
11/2	7.0	West Texas Util. 1st 3½s 1981 .....	102.31	.63	3.50	A
11/9	6.0	Rockland L. & P. 1st 3½s 1981 .....	102.74	.72	3.60	A
11/15	40.0	Detroit Ed. Gen. Ref. 3½s 1976 .....	101.78	.50	3.27	Aa
11/15	10.0	Florida P. & L. 1st 3½s 1981 .....	101.38	.28	3.55	A
11/21	10.0	Gulf States Util. 1st 3½s 1981 .....	102.38	.28	3.25	Aa
11/29	8.0	Central Ill. Lt. 1st 3½s 1981 .....	105.57	.42	3.22	Aa
12/7	7.0	Central Maine Pr. 1st 3½s 1981 .....	101.75	.61	3.53	A
12/12	20.0	Virginia Elec. & Pr. 1st 3½s 1981 .....	102.87	.57	3.23	Aa
12/14	25.0	Long Island Ltg. 1st 3½s 1976 .....	101.20	.98	3.55	A
12/20	15.0	Niagara Mohawk Pr. 1st 3½s 1981 .....	101.80	.66	3.28	Aa
1/9/52	35.0	Phila. Elec. 1st 3½s 1982 .....	100.96	.67	3.20	Aaa
1/24	17.0	Indiana & Mich. Elec. 1st 3½s 1982 ....	100.25	.66	3.18	Aa
1/29	15.0	Dayton P. & L. 1st 3½s 1982 .....	102.25	.67	3.13	Aa
1/31	50.0	United Gas 1st & C. T. 3½s 1972 .....	102.17	.64	3.35	A
2/5	12.0	Louisville G. & E. 1st 3½s 1982 .....	101.47	.46	3.05	Aa
2/6	6.0	Penna. Pr. Co. 1st 3½s 1982 .....	101.34	.63	3.18	A
<b>Debentures &amp; Notes</b>						
11/1/51	7.0	Ohio Pr. Ser. 3½% Notes 1955-66 .....	101.63	.83	2.75-3.30%	A
12/5	25.0	Tenn. Gas Trans. Deb. 4½s 1971 .....	102.25	1.65	4.70	Baa
12/10	1.0	Carolina Natural Gas Deb. 6s 1976# ..	150	9.75	—	—
1/10/52	2.4	Pub. Service of N. C. 6% Notes 1955 ..	100	6.00	6.00	—
1/24	6.0	Ind. & Mich. El. 3½s Ser. Notes 1956-67	101.03	.57	2.75-3.20	A
<b>Preferred Stocks</b>						
10/24/51	38.0	Pacific G. & E. 5% (\$25) .....	25.50	1.00	4.90%	
10/31	53.0	Com'nwealth Ed. \$1.32 Conv. (\$25) (a)	31	.45	4.26	
11/14	25.0	Pub. Service E. & G. 4.70% (\$100) ..	102.17	2.17	4.60	
11/19	10.0	Long Island Ltg. 5.25% (\$100) .....	100	1.87	5.25	
11/20	6.0	Nor. Ind. P. S. 4.56% Conv. (\$25) (b) .	24	1.00	4.75	
12/4	10.0	El Paso Natural Gas 5½% (\$100) ....	102	3.50	5.39	
12/5	4.0	Central Hud. G. & E. 5.25% (\$100) ....	100	1.90	5.25	
12/19	3.0	Iowa South. Util. \$1.76 Conv. (\$30) (c)	32.25	1.85	5.46	
1/11/52	5.2	Florida Pr. 4.90% Conv. (\$100) (d) ..	100	2.25	4.90	
1/23	5.0	Central Ill. P. S. 5½% (\$100) .....	100	2.50	5.25	
1/23	10.0	Kansas City P. & L. 4.50% (\$100) ....	100	1.95	4.50	
<b>Common Stocks—Subscription Rights</b>						
10/19/51	17.3	Consumers Power .....	32	.29	6.25%	
10/25	6.8	Long Island Ltg. ....	13	.17	6.15	
11/29	21.3	Columbia Gas System .....	14.25	.26	6.31	
12/4	1.4	Indiana Gas & Water .....	21.25	.38	6.59	
12/7	5.5	Central Maine Power .....	17.63	.98	6.81	
1/23/52	8.4	Kansas City P. & L. ....	26.50	.32	6.03	
1/29	8.2	Dayton P. & L. ....	32	—	6.24	
1/31	12.6	West Penn Elec. ....	28.75	.23	6.95	
2/8	1.3	Central Ill. E. & G. ....	20	—	6.50	
<b>Common Stocks—Other New Money Sales</b>						
12/14/51	5.4	Public Service of N. H. ....	23.13	1.38	7.78%	
12/19	24.3	Niagara Mohawk Power .....	24.25	.61	6.59	
1/23/52	8.8	Pacific P. & L. ....	15.88	.40	6.92	

\*Yield to maturity on bonds. #With 100,000 shares common stock. (a) Convertible into common stock share for share after November 1, 1952. (b) Junior to outstanding preferred stocks. (c) Convertible into 2 shares of common stock. (d) Convertible into common at \$20.

## PUBLIC UTILITIES FORTNIGHTLY

## RECENT FINANCIAL DATA ON GAS COMPANY STOCKS

1950 Rev. (Mill.)			2/6/52 Price About	Indi- cated Divi- dend Rate	Approx. Yield	Current Period	Share Earnings# % In- Of Re- crease ports**	Freq. Of Re- ports**	Price- Earn. Ratio	Div. Pay- out
<i>Producers and Pipeline Companies</i>										
\$ 7	O	Commonwealth Gas ....	20	\$ .25	1.3%	\$ .74dx	19%	a	—	20
23	S	Mississippi Riv. Fuel ...	37	2.20	5.9	3.31s	13	qy	11.2	60
37	S	Southern Nat. Gas .....	49	2.50	5.1	4.11s	17	qy	11.9	61
2	O	Southwest Nat. Gas ....	8½	.20	2.4	.45s	61	bq	—	44
53	O	Tenn. Gas Trans. ....	28	1.40	5.0	1.79s	D3	qy	15.6	78
74	O	Texas East, Trans. ....	20	1.00	5.0	1.93dx	30	a	10.4	52
		Averages .....			3.9%				11.6	
<i>Integrated Companies</i>										
81	S	American Natural Gas ..	32	\$1.80	5.6%	\$2.66s	48%	bq	12.0	60
160	S	Columbia Gas System ..	16	.90	5.6	1.20s	4	qy	13.3	75
7	C	Consol. Gas Utilities ....	13	.75	5.8	1.56o	5	qy	8.3	48
135	S	Consol. Nat. Gas .....	63	2.50	4.0	5.58s	19	qy	11.3	45
39	S	El Paso Nat. Gas .....	37	1.60	4.3	3.24n	98	my	11.4	49
26	S	Equitable Gas .....	22	1.30	5.9	1.82s	D15	bq	12.1	71
13	O	Interstate Nat. Gas .....	38	2.50	6.6	3.25dx	30	a	11.7	77
8	O	Kansas-Neb. Nat. Gas ..	23	1.24	5.4	1.90d	35	qc	12.1	64
52	C	Lone Star Gas .....	26	1.40	5.4	1.72s	D20	mgy	15.1	81
9	O	Mountain Fuel Supply ..	21	.70	3.3	.99dx	9	a	21.2	61
36	C	National Fuel Gas .....	14	.80	5.7	1.21s	1	bq	11.6	66
3	O	National Gas & Oil .....	8½	.40	4.7	1.04dx	68	a	8.2	38
33	S	Northern Nat. Gas .....	39	1.80	4.6	1.62s	D26	qy	24.1	111
22	C	Oklahoma Nat. Gas .....	36	2.00	5.6	2.81o	D4	b	12.8	71
16	C	Pacific Pub. Serv. ....	16	1.00	6.3	2.23dx	7	qc	7.2	45
41	S	Panhandle East. P. L. ..	69	2.00	2.9	2.82s	6	qy	24.5	71
86	S	Peoples Gas Lt. & Coke ..	129	6.00	4.7	8.36s	D17	qy	15.4	72
14	O	Southern Union Gas ....	25	.80	3.2	1.51dx	13	qc	16.6	53
107	S	United Gas .....	25	1.00	4.0	1.52s	9	qy	16.4	66
		Averages .....			4.8%				14.3	
<i>Retail Distributors</i>										
21	O	Atlanta Gas Light .....	23	\$1.20	5.2%	\$1.86s	D9%	bq	12.4	65
4	C	Bridgeport Gas .....	24	1.40	5.8	1.47dx	D22	a	16.3	95
2	O	Brockton Gas Lt. ....	8½	.56	6.6	.58dx	D2	a	14.7	97
42	S	Brooklyn Union Gas ....	53	3.30	6.2	4.48d	24	qc	11.8	74
18	O	Central El. & Gas .....	11	.80	7.3	.95s	D11	qy	11.6	84
5	O	Hartford Gas .....	37	2.00	5.4	2.68dx	—	a	13.8	75
1	O	Haverhill Gas Lt. ....	34	1.80	5.3	2.12d	9	my	16.0	85
7	O	Houston Nat. Gas .....	19	.80	4.2	1.49ju	41	a	12.8	54
8	O	Indiana Gas & Water ...	24	1.40	5.8	2.06d	11	c	11.7	68
1	O	Jacksonville Gas .....	33	1.40	4.2	4.97dx	4	a	6.6	28
5	C	Kings County Ltg. ....	9	.40	4.4	.45dx	D30	qc	20.0	89
21	S	Laclede Gas .....	9	.50	5.6	.89s	11	b	10.1	56
2	O	Michigan Gas Utils. ....	15	—	—	1.11s	54	qy	13.5	—
16	O	Minneapolis Gas .....	21	1.10	5.2	1.22s	15	qy	17.2	86
5	O	Mobile Gas Service ....	30	1.60	5.3	2.82s	D17	bq	10.6	57
5	O	New Haven Gas Lt. ....	28	1.60	5.7	1.92dx	13	a	14.6	83
115	S	Pacific Lighting .....	52	3.00	5.8	3.53s	D16	bq	14.7	85
10	O	Portland Gas-Coke .....	16	.80	5.0	1.67d	11	bq	9.6	48
6	O	Providence Gas .....	10	.40	4.0	.57dx	2	a	17.5	88
2	C	Rio Grande Valley Gas .	2	.12	6.0	.20je	10	qy	10.0	60
1	O	Rockland Gas .....	38	1.70	4.5	4.63dx	5	a	8.2	37
5	O	Seattle Gas .....	16	.60	3.8	1.37d	—	qy	11.7	44
4	O	So. Jersey Gas .....	16	.50	3.1	.88d	66	qc	—	—
4	O	Springfield Gas Light ...	34	1.60	4.7	1.64dx	—	—	20.7	98
22	S	United Gas Improv. ....	32	1.55	4.8	2.29oPF	—	qy	14.0	68
23	S	Wash. Gas Light .....	28	1.50	5.4	2.54d	7	bq	10.2	59
		Averages .....			5.2%				13.0	
<i>Canadian</i>										
—	S	International Utilities ...	30	\$1.20	4.0%	\$1.76s	D3%	mgy	17.0	68

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# FINANCIAL NEWS AND COMMENT

## RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER COMPANIES

1950 Rev. (Mill.)		2/6/52 Price About	Indi- cated Divi- dend Rate	Approx. Yield	Current Period	—Share Earnings#— % In- Of Re- crease* ports**		Price- Earn. Ratio	Div. Pay- out
Communications Companies									
Bell System									
\$3,261	S	Am. Tel. & Tel. (Cons.)	157	\$9.00	5.7%	\$11.10n	8%	mcy	14.1 81
26	O	Cinn. & Sub. Bell Tel. . .	76	4.50	5.9	4.59dx	D4	qc	16.6 98
92	C	Mountain Sts. T. & T. . .	101	6.00	5.9	5.76d	D20	qy	17.5 104
191	C	New England Tel. ....	110	8.00	7.3	7.33s	2	qy	15.0 109
431	S	Pacific Tel. & Tel. ....	110	7.00	6.4	8.19s	—	qy	13.4 85
55	O	So. New Eng. Tel. ....	34	1.80	5.3	2.12dx	18	qc	16.0 85
Averages .....				6.1%				15.4	
Independents									
7	O	Central Telephone .....	12	\$ .80	6.7%	\$1.32s	35%	qy	9.1 61
70	S	General Telephone .....	31	2.00	6.5	2.64d	53	qy	11.7 76
9	C	Peninsular Tel. ....	42	2.50	6.0	3.77s	D10	c	11.1 66
12	O	Rochester Tel. ....	14	.80	5.7	1.52dx	69	qc	9.2 53
Transit Companies									
7	O	Chicago SS. & S. B. ....	11	\$1.00	9.1%	\$1.67dx	84%	qc	6.6 60
13	O	Cinn. St. Ry. ....	6	.30	5.0	.32d	68	a	— 94
9	O	Dallas Ry. & Term. ....	13	1.40	10.8	1.76dx	27	a	7.4 80
184	S	Greyhound Corp. ....	12	1.00	8.3	1.19s	3	qy	10.1 84
22	O	Los Angeles Transit ...	5	.50	10.0	.51dx	D39	qc	9.8 98
29	S	Nat. City Lines .....	10	1.00	10.0	1.90dx	9	qc	5.3 53
25	O	St. Louis P. S. A. ....	9	.50	5.6	.41dx	D15	qc	— 122
4	O	Syracuse Transit .....	20	2.00	10.0	2.89dx	366	a	6.9 69
23	O	United Transit .....	3	—	—	.42d	D38	qc	7.1 —
Averages .....				8.6%				8.2	
Water Companies									
Holding Companies									
26	S	Amer. Water Works ....	9	\$ .50	5.6%	\$ .90s	D11%	qy	10.0 56
4	O	N. Y. Water Service ...	38	.80	2.1	1.92s	18	qy	19.8 42
Operating Companies									
3	O	Bridgeport Hydraulic ..	30	\$1.60	5.3%	\$1.45dx	D8%	a	20.7 110
7	O	Calif. Water Serv. ....	30	2.00	6.7	2.71d	19	b	11.1 74
1	O	Elizabethtown Water ...	90	6.00	6.7	6.96dx	D17	a	12.9 86
6	S	Hackensack Water ....	32	1.70	5.3	2.73dx	2	qc	11.7 62
3	O	Jamaica Water Supply ..	23	1.50	6.5	2.09s	19	qy	11.0 72
2	O	New Haven Water .....	53	3.00	5.7	3.25dx	D6	a	16.3 92
1	O	Ohio Water Service ....	23	1.50	6.5	1.94s	10	bq	11.9 77
4	O	Phila. & Sub. Water ....	38	.80	2.1	3.06dx	D12	a	12.4 26
1	O	Plainfield Union Wt. ...	48	3.00	6.3	4.16dx	D18	q	11.5 72
2	O	San Jose Water .....	34	2.00	5.9	2.48n	D13	b	13.7 81
6	O	Scranton-Spring Brook .	14	.90	6.4	.94s	D18	qy	14.9 96
3	O	Southern Cal. Water ...	9	.65	7.2	.91s	25	qy	9.9 71
2	O	West Va. Wt. Service ..	24	1.20	5.0	1.37s	12	bq	17.5 88
Averages .....				5.7%				13.5	

D—Deficit. C—Curb exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. \*Increase in balance for common stock. #Earnings are calculated on present number of shares outstanding, except as otherwise indicated. PF—*Pro forma*. dx—December, 1950. je—June. ju—July. s—September. o—October. n—November. d—December, 1951. NC—Not comparable. \*\*The following symbols are used in this column to indicate the periods and frequency of earnings reports: a—Calendar year only. b—Twelve months only (reported monthly). bq—Twelve months only (reported quarterly). c—Cumulative months and twelve months. mc—Latest month and cumulative months. mcy—Latest month, cumulative months, and twelve months. mqy—Latest month, three months, and twelve months. my—Latest month and latest twelve months. q—Latest quarter only. qc—Quarters cumulatively. qy—Latest quarter plus last twelve months.



# What Others Think

## Toward the Point of No Return



**T**HE fear that "we have almost reached the point of no return" on the road to socialization of the nation's power resources was expressed recently by Walter G. White, chairman of the New Hampshire Water Resources Board. Speaking before the New England Council, the utility executive cited the report of the Water Resources Policy Commission, commonly referred to as the Cooke Report, as evidence of further encroachment by the Federal government in the field of hydroelectric power. Declaring that "there is a well-organized insidious group within our Federal government that wishes to usurp the rights of our citizens and have all future power developed, distributed, and controlled by the Federal government," Mr. White charged that the Cooke Report was "pregnant with public power" in spite of the mass of evidence placed before the commission in opposition to its proposals.

He sharply criticized the report's recommendation that remaining water power be developed as part of comprehensive river basin development programs in the interests of economy and on the grounds that the cost of investment funds, a large part of the cost of producing hydroelectric power, would be lowered with public development. This is the same "Anything you can do, I can do better" philosophy, declared the New Hampshire official, that has prevented development by private enterprise of the St. Lawrence river's power resources.

**M**R. WHITE lamented the failure of the New Hampshire legislature to provide funds to carry out his own recommendation that consultants be engaged to evaluate the evidence given the commission and to draft legislation "to

take the government out of the generation of power." He emphasized that care must be taken to present all the facts to a new committee, the New England-New York Inter-Agency Committee, NENYIAC, now engaged in a comprehensive study of the entire Northeast area and empowered to make recommendations for the public development of water power. The New Hampshire executive pointed to the recapture clause in the Federal power license as evidence of an attempt to set up a Northeast public power grid to include everything from the Niagara to the Passamaquoddy and warned that the work of NENYIAC "can strangle the lifeblood from one of our largest tax-paying industries. . . . the studies to be carried out under NENYIAC are so extensive and complex that the present combined staffs of all the Northeast states cannot cope with them alone. The knowledge and skill of our people must be mobilized and used to combat this threat to socialize a major industry."

**M**R. WHITE underlined the vital interest of the Northeast area, "one of the greatest man-made commercial and industrial regions in the world," in anything affecting its industrial growth, declaring that New Hampshire had attained her position as seventh in industrial income in the United States, "by her sound management over the past century and a half." He said:

. . . New Hampshire cannot have so-called high-dam developments because they would flood out our cities and strangle the very industries they would be supposed to benefit. The development of our New Hampshire streams is as extensive and progressive as

## WHAT OTHERS THINK

in any part of the United States. Our Merrimack and Connecticut rivers are among the hardest working rivers in the world. All of these things are known. They are a matter of record and yet, the big bureaucrats want to study us as though we were a backward child.

**C**HARACTERIZING the NENYIAC as another milepost along the road

to Socialism, the New Hampshire official sounded a warning against being "seduced" into Socialism by crusading bureaucrats equipped with the Federal pocketbook. "We have almost reached the point of no return," he warned. "If the trend of the big bureaucrat is not arrested we will find ourselves in the status of a seedy moocher living on hand-outs from Washington. NENYIAC is another milepost along the road."

## Power—Horse or Unicorn?

**I**N a speech delivered before the Baltimore Chamber of Commerce, Henry B. du Pont, vice president of E. I. du Pont de Nemours & Company, warned that public misunderstanding of the "economic power" of Big Business was endangering the development of the nation's vast horsepower reserves, a vital part of the rearmament program. Observing that military needs of 1952 are not the same as 1942, that weapons "larger, far more expensive, and infinitely more complex" are now required, the corporation executive stated that the present military program "will require that our industrial team be bigger, stronger, and more unified than ever before."

Noting the "hue and cry" now being raised that the big companies are receiving "the cream of the defense work," Mr. du Pont deprecated the apparent contradictory attitude of many people toward the word "power" in the engineering sense and "power" in the sense of individuals or groups accomplishing certain things. He stated:

Power in the engineering sense has become so commonplace that we tend to overlook its true significance and importance in our daily lives. The fact is that our ever-increasing standard of living depends on the degree of development and of utilization of various forms of energy and mechanical power.

Pointing to the development of horsepower in the United States over the past 100 years — one-half horsepower *per*

*capita* in 1850 to 37 horsepower *per capita* in 1952, the du Pont Company official stated that the nation now possesses "twice the amount of power available to the British subject and about thirty-three times that at the disposal of the Chinese or Hindu."

**C**HARACTERIZING as "mythical" many of the powers attributed to Big Business — crushing of competition, squeezing the public, pigeon-holing patents, high profits—Mr. du Pont emphasized the real powers of Big Business to risk millions of dollars, to undertake large-scale research projects, and to create the productive capacity necessary for products which can be produced only on a mass production basis. He continued:

Can you imagine . . . how much cars like Chevrolet or Ford would cost if hundreds of garages and shops throughout the country attempted to make them? Or how good they would be? And can you imagine how much the home owner and industry would have to pay per kilowatt hour of electricity if there were no super-power systems and every community throughout the land had its own generating plant?

Insisting that the only real difference between a large corporation and Al's garage is only one of degree—that both are subject to the same economic considerations—Mr. du Pont defended the

## PUBLIC UTILITIES FORTNIGHTLY

development in this country of business concerns "to the size best suited to maximum efficiency" as follows:

... if it is evil for our industrial machine to have in it units with a high concentration of dollars and man power, then it must follow that it is evil for us to have electric refrigerators, deepfreezers, radios, televisions in our homes; it is evil for our women-folk to wear nylon; it is evil for the American public to have 40,000,000 passenger automobiles. For it is Big Business that makes these things possible.

**S**UGGESTING that the unicorn be adopted to measure the "imaginary powers" of Big Business as the horse has been

chosen to measure mechanical power, Mr. du Pont warned that fear of this mythical unicorn power may stand in the way of multiplying many times our vast real power resources. He said, "The day of the one-man show in technical developments has long since gone by. . . . Through the large companies, the combined technical training of thousands of specialists is brought to bear upon the problem at hand, and the savings of thousands upon thousands of investors are put to work to provide the complex plant and equipment necessary. Only in this way can the possibilities of our vast horsepower reserves be realized. . . . We stand in danger that in alarm over the supposed economic power of business we will lose the true power that underlies our strength as a nation."

## Oil and Gas Conservation

**T**HE American Petroleum Institute paid tribute to a veteran member of the Texas Railroad Commission at its annual meeting recently. He is Lieutenant General Ernest O. Thompson. General Thompson, senior member of the commission, has spent most of his twenty years on the commission as one of the nation's strongest advocates of conservation measures in the oil and gas fields.

In bestowing the institute's gold medal for distinguished achievement, the institute also presented General Thompson with a commemorative plaque. On it was inscribed a recital of his many achievements: pioneering in oil and gas conservation; leadership in the establishment of conservation statutes; three times chairman of the Interstate Oil and Gas Compact Commission of which he was one of the founders; wartime service as oil and gas consultant to the Secretary of War; and guiding force behind the establishment of oil and gas research schools at the University of Texas and Texas A. & M. College.

In an address before the institute, General Thompson set forth his thoughts on the conservation problems faced by the industry today. He declared that

price is the greatest conservation agent and in this connection added:

Do not allow this industry to be seduced by a subsidy! A fair price in a free competitive field is the greatest incentive to prevent waste in oil and gas production. The better the price the more exacting can be your conservation practices.

To illustrate more clearly, I will use the example of flare gas-casinghead gas produced with and as an incident to oil production from oil wells.

In days past, gas had no sale value because there was no market for it.

With the advent of the gas pipelines from Texas to outside markets, natural gas began to take on market value due to competitive market demand for this clean, efficient, convenient fuel.

Our commission accordingly required that this casinghead gas be gathered from each well to a central plant where the more easily liquefied hydrocarbons were removed, and then we required that the gas be returned to the oil-producing reservoir to lift more oil or that the gas be utilized for light or fuel or for manufacturing

## WHAT OTHERS THINK

or for some other lawful purpose. No oil was allowed to be produced unless the gas was saved for use.

In the same vein he continued:

This is pure waste prevention. The oil industry has already spent some \$300,000,000 erecting such conservation systems in Texas. We are saving 2 billion cubic feet of gas a day and recovering 358,996 barrels daily of liquid hydrocarbons. This is in addition to our crude production of 2,870,000 barrels daily and 12 billion cubic feet of gas daily.

Our market-demand statute in

Texas says, "Production of oil or gas in excess of market demand or transportation facilities is waste and is forbidden." We allow to be produced all the oil and gas that can be sold ratably and carried on hand in storage above-ground. This law properly administered protects the consumer by providing plenty of crude and prevents physical waste of oil and gasoline in excess storage.

Commissioner Thompson also outlined the mathematical odds which an oil and gas prospector must face and the "gamble" he must take in the way of investing funds.

## National Wildlife Week

**D**WINDLING natural resources will be the chief subject of discussion during the annual observance of National Wildlife Week, March 16th to 22nd. And these precious resources will be typified by a rapidly disappearing species of deer—the diminutive Key deer.

Carl D. Shoemaker, conservation director of the federation, reports that only about 30 of these unique little animals, smallest race of white-tail deer, remain alive. Menaced by poachers, predators, and forest fires, they cling to a precarious existence on the Keys off the coast of Florida. During the last year, several have been killed by speeding automobiles along the overseas highway to Key West.

As part of the observance of National Wildlife Week, the federation has created a special fund which will be used first to keep a special protection officer on the job in the Key deer area. This will supplement an effort already started by other organizations in co-operation with the U. S. Fish and Wildlife Service.

Next, the federation will help improve the island habitat of the deer, through such measures as constructing water holes for the animals and protective fences along highways. The federation is supporting legislation in Congress to establish a Federal sanctuary in the area.

Because of the centuries' long adjustment to its own island background, the

surviving herd cannot be transplanted to other regions where they might be better protected. For this reason, Mr. Shoemaker said, the federation is attempting to provide the protection for the deer on their home grounds.

Little more than knee-high, the elusive Key deer weighs no more than 30 to 35 pounds when full grown. Their fawns are about the size of rabbits.

**N**ATIONAL WILDLIFE WEEK has been an annual observance since 1938, sponsored by the nonprofit federation as a means of calling public attention to the broad and pressing problems of natural resource management. The 1952 celebration will mark the beginning of a new series in which each year a particular kind of wildlife—some species considered in critical or precarious condition—will be given special attention.

The week will be marked by proclamations by state and local government officials, speaking programs throughout the country, window displays, advertising campaigns, and other media.

The National Wildlife Federation was organized in 1936 and now has active affiliates in 42 states. It represents more than 4,000,000 sportsmen and conservationists, not only in state-by-state activities, but in congressional interests as well.



# The March of Events

## In General

### Seek to Strike "Planning" Item From Budget

**R**EPRESENTATIVES Harold C. Ostertag and William E. Miller, New York Republicans, early this month urged that a \$1,000,000 "planning" item requested by the President for the redevelopment of Niagara Falls power be stricken from the budget. In a letter to Representative Clarence Cannon, chairman of the House Appropriations Committee, they contended that such an expenditure is unnecessary and probably illegal.

The "planning" for which the funds are sought was done thirty years ago by private industry, the Ostertag-Miller letter said, and the plans, in substantially their present form, have been approved by the bureau of power of the Federal Power Commission and used by both private engineering groups and the Army Engineers in their studies on utilization of Niagara's presently wasted power potential.

Moreover, the appropriation request would probably be illegal, if granted, the New York Congressman wrote, since the 1950 Niagara River Treaty prohibits the launching of any project for redevelopment of Niagara Falls power without specific authorization by Congress. No such authorization has been voted, although several bills for redevelopment have been introduced in the 82nd Con-

gress. One bill, jointly sponsored by Congressman Miller and Senator Homer Capehart, provides for redevelopment of the Niagara Falls power potential by private industry. Other bills would authorize the Federal government to do the job.

### FPC Issues Depreciation Study

**A** CONTINUING trend toward general adoption of straight-line depreciation accounting practices by the privately owned electric utilities in the United States is emphasized in a report issued recently by the Federal Power Commission. According to the study, 76 per cent of the utilities are now using the straight-line method of providing for depreciation, compared with 52 per cent in 1945 and 15 per cent in 1937. An increasing number of utilities are, also, segregating electric plant accounts, depreciation reserve accounts, and depreciation expense accounts as provided in the Uniform System of Accounts adopted by FPC and the National Association of Railroad and Utilities Commissioners. Over one-third of the utilities report annual rates of depreciation by property accounts and have established reserves by functional classes of property.

The study includes data on all class A and B privately owned utility systems—those with annual operating revenues of \$250,000 or more.

## Arizona

### Bill to Include Common Carriers Introduced

**A** BILL to amend Arizona law governing issuance of municipal revenue

bonds in a manner that would permit the city of Phoenix to purchase Metropolitan Bus Lines was introduced in the state legislature this month by Represent-

## THE MARCH OF EVENTS

ative R. H. Wallace, Maricopa Republican, and others.

Listed as House Bill No. 160, the measure would amend the law to include "common carriers of passengers" under utility concerns that could be purchased by municipalities with revenue bonds. Present Arizona law does not permit issuance of bonds for this purpose.

Negotiations for the purchase of Metropolitan Bus Lines by the city of Phoenix have been under way for many months, although no price agreement has yet been reached. Although the proposed legislation does not specifically mention the Phoenix situation, Wallace said its purpose was "to permit the city to issue revenue bonds to buy the line."

## California

### Asks Temporary Rate Increase

THE state public utilities commission recently took under consideration a request by the Pacific Gas and Electric Company for an interim electric rate increase amounting to approximately \$17,000,000 a year. PG&E is asking this temporary increase pending the state's decision on its plea for a permanent increase of \$37,486,000 annually.

Ralph W. DuVal, PG&E rate at-

torney, told the commission that PG&E earnings have declined and that it needs the rate increase in order to attract new capital to finance its expansion program.

He said the increase requested would provide the company with a 5 per cent rate of return. More than 40 cities argued in opposition to the increase, as did also the California Farm Bureau Federation, the California State Grange, and the Office of Price Stabilization.

## Kentucky

### Utility Rate Bill Introduced

KENTUCKY utilities would be required to obtain approval of proposed rate increases before putting them into effect under terms of a bill introduced in the state legislature this month by Senator Wayne W. Freeman, Mayfield Democrat, a former field inspector for the state public service commission.

Present Kentucky law permits utilities to file applications for rate increases, post bonds, and put the increases into effect before public hearings are conducted.

The proposed new legislation was drafted by the commission's legal staff and is favored by officials of the Kentucky Municipal League.

The measure provides: (1) Whenever a utility files with the commission a schedule of new rates, the commission may on its own motion, or on complaint, hold a hearing on their reasonableness. (2) Pending the hearing and a final decision, the commission may suspend

operation of the new rates for a period not exceeding five months. (3) If a final order has not been entered within five months, the utility may put its new rates into effect anyway. The present requirement that a bond be posted to insure refunds of excess charges is eliminated. (4) When the commission enters a final order, the utility, within sixty days, must refund any excess collected from its customers. If it fails to do this, any customer may sue in court to recover the refund due, legal interest, court costs, and reasonable attorney's fees. (5) The commission would be permitted to increase from the present \$130,000 a year to \$250,000 its assessment against utility companies to finance the commission's work. The minimum assessment for any utility company would be reduced from \$25, at present, to \$5.

The commission would be permitted to consider "capital structure" of a utility, along with other factors, when computing rate bases.

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### Massachusetts

#### Natural Gas Rate Investigation Proposed

A STATE legislative investigation of natural gas rates in Massachusetts was proposed by a measure introduced in the state legislature early this month

by Senator Joseph S. Gibney and Representative Charles J. Skladzien, both of Worcester county.

The proposed probe would be conducted by three senators, five representatives, and three appointees of the governor.

### Michigan

#### Wants to Expand Heat Service

A PETITION seeking permission to connect 15,000 additional gas space-heating customers was filed with the state public service commission on February 7th by Consumers Power Company. The application said the company can serve the additional customers without impair-

ing service to industry or to its present space-heating customers.

The utility firm said the proposed 15,000 new customers would be drawn from its priority list of applicants for space-heating service. This list was established last fall under direction of the commission when the company was granted permission to add 10,000 new customers.

### Rhode Island

#### Natural Gas Control Proposed

REGULATION of natural gas pipelines within the state was proposed by two bills introduced in the Rhode Island legislature on February 7th by Representatives Richard D. Windsor of East Providence, Republican floor leader, and John H. McGann, Newport Democrat.

The measure offered by Windsor would put all firms engaged in construction or operation of such pipelines under the authority of the state public utility

administrator in matters relating to public safety. It would empower the administrator to enter into any compact with the Federal government regulating transportation and distribution of natural gas.

The McGann Bill would empower the administrator to establish engineering standards and specifications for distributing equipment and to regulate conditions under which the gas could be transmitted. Full cost of the regulation would be assessed against the utilities involved.

### Wisconsin

#### May Cut off Gas

WISCONSIN consumers whom unethical contractors have duped into making unauthorized installations of natural gas heating equipment may have their heating gas shut off.

John Dolan, vice president of the Milwaukee Gas Light Company, said notices that their gas would be shut off "within thirty days" had been sent to at least 83 owners of gas space heaters who do not

have authorization by the utility for such installations.

All installations of natural gas space-heating equipment in Wisconsin are now sharply restricted by a state public service commission order because of the limited supply of natural gas.

Dolan said that in view of the commission order, the utility has no choice but to notify the users that their supply of heating gas will have to be cut off.



## Progress of Regulation

### Discontinuance of Phone Service for Bookmaking Upheld

A COMPLAINT against a telephone company alleging an arbitrary disconnection of service and refusal to restore it was dismissed by the New Jersey commission.

Telephone service was disconnected upon a request of the state police because an investigation was said to justify the conclusion that the telephone was used for bookmaking.

The commission pointed out that regulations providing that facilities and

services may be terminated at the request of any governmental authority had previously been held to be reasonable and not arbitrary. It was further noted that the commission was without power to review the action of the law enforcement agency and determine whether or not such action was warranted in the circumstances in which it acted, and if not warranted, to nullify its action. *Procaccino v. New Jersey Bell Teleph. Co. Docket No. 5886, January 9, 1952.*



### Local Telephone Calling Areas to Be Expanded

THE Washington commission ordered the Pacific Telephone & Telegraph Company, the West Coast Telephone Company, and the Telephone Service Company to expand the local calling areas, for rate-making purposes, for the transmission of interexchange telephone messages in the fringe exchanges of the greater Seattle area. The commission observed that even if allowance were to be made for the fact that those desiring such a service arrangement were highly organized and that those in opposition were not, and even if the weight of the testimony for extended service were discounted greatly, the record still clearly and convincingly showed that the great majority of subscribers desired extended area service. It was also found that the present service in these exchanges was inadequate to meet the needs of the subscribers.

One of the companies contended that rates as to noncontiguous exchanges should be on a message unit charge basis

and that all interexchange business service should be placed upon a measured rate. The commission did not agree that such rate treatment was necessary as a preliminary to the institution of non-optional extended area service. However, it had no objection to the establishment of business message rates as an optional rate treatment coexistent with flat rates.

The companies were cognizant of the fact that it would be necessary ultimately to develop a rate plan and to establish an intraregional method of subscriber dialing on a message unit basis, at least for exchanges beyond local calling areas. The commission suggested that engineering studies required for the offering of the service arrangement ordered in this case should be conducted in such a manner as to harmonize with the ultimate objective of a regional plan involving message unit treatment for exchanges beyond the local calling areas established in this case.

Extended area arrangements have

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been in operation in one form or another in the state for some time. Subscriber acceptance of the service has been uniformly favorable. The commission said that while installation costs will be substantial, the companies will benefit from

partially offsetting operating economies, particularly in traffic and accounting expense. *Washington Pub. Service Commission v. Pacific Teleph. & Teleg. Co. et al. Cause No. U-8382, November 2, 1951.*



### Compromise Holding Company Reorganization Approved Despite Increase in Debt Securities

THE Securities and Exchange Commission approved a compromise reorganization plan of American & Foreign Power Company, providing for retirement of securities held by the holding company's parent as well as the retirement of publicly held preferred and common stocks. The retirement will be accomplished through the issuance of new junior debt and common stock. Publicly held option warrants and preferred stock allotment certificates will also be canceled under the plan.

The commission pointed out that the company had been ordered to eliminate the unfair and inequitable distribution of voting power and to simplify its capital structure. The new plan will eliminate existing preferred stocks with their huge accumulated dividend arrearages as well as option warrants. Also, by reason of the allocation to the parent company of new common stock for all of its present holdings of the subsidiary's securities, there will be eliminated the situation of the dominant stockholder's owning both debt and equity securities. The resultant capital structure will consist of existing and authorized bank loans, existing debentures, new 35-year junior debentures, and a single class of stock; namely, common stock.

The commission observed that while it could not approve the proposed capital structure for a domestic holding company system, it did not believe it necessary to apply the same standards in the case of Foreign Power, whose subsidiaries are foreign corporations. It considered the relative advantages of having debt outstanding in an amount greater than at the present time as against main-

taining the standards ordinarily applicable under the Holding Company Act. The positive benefits to be realized by all classes of security holders were held to outweigh the detriments attaching to the amount and type of debt being created. The commission cautioned, however, that its decision here was not to be construed as any departure from the standards previously insisted upon with respect to domestic holding company systems.

The commission was guided by certain general standards in considering the fairness of the plan. For example, it pointed out that the Holding Company Act requires that each security holder, in the order of his priority, shall receive from that which is available for the satisfaction of his claim, the equitable equivalent of the rights surrendered. The whole bundle of rights being surrendered must be viewed as though in a continuing enterprise, with primary emphasis being placed upon operative rights such as claim to earnings and dividends rather than those inchoate rights which might arise on liquidation.

The extent to which particular security holders might be affected by any special equities in the situation, such as claims asserted in this case against the controlling stockholder for acts of mismanagement and spoliation, were also considered. These claims, however, were appraised in the context of their relationship to the entire plan and not as separate and independent claims.

The commission placed primary weight on corporate earnings rather than upon consolidated earnings, in view of the risks and uncertainties attaching to

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the earnings of the subsidiaries and the problems involved in translating them into corporate earnings. Although primary weight must be accorded to a security holder's right to earnings in testing the fairness of the plan, the com-

mission deemed it appropriate to consider the assets available to satisfy the claims of the various classes of securities. *Re American & Foreign Power Co. et al. File Nos. 54111, 59-12, Release No. 10870, November 7, 1951.*



### Substitution of Bus for Ferryboat Service Approved

THE Virginia Supreme Court of Appeals affirmed a commission order authorizing a railroad to substitute bus for ferryboat passenger service between certain municipalities. Protestants had requested that evidence be adduced as to the profit and loss of freight and passenger service in the area in question as compared with the rest of the state.

The court upheld the commission's refusal of such request on the ground that such information was not available and could not be made available because the railroad's records would not disclose the information requested as they were kept in accordance with its rules and the rules of the Interstate Commerce Commission. The railroad stipulated, however, that its freight business had been profitable

in the area in question and such stipulation covered all the protestants could expect to prove. It was pointed out that the commission could authorize either the elimination or modification of the particular facilities even though the company as a whole was shown to be profitable.

The fact that the statute only authorized the railroad to enter a municipality either by rail or boat, or partly by rail and boat, would not affect the commission's power to authorize such substitution, it was held, because the state Constitution gives the commission power to regulate and control all transportation companies doing business in the state. *Norfolk et al. v. Chesapeake & O. R. Co. 67 SE2d 99.*



### Certificates for Single Operation Transferred to Separate Operators

THE Massachusetts Department of Public Utilities authorized a bus company to transfer certificates covering one integrated operation to three different persons despite its opinion that such a splitting up of operating rights is contrary to the statute relating to the transfer of certificates. It did this solely because the Interstate Commerce Commission had approved the transfer of some of the rights involved. One of the transferees operated in both interstate and intrastate commerce.

The department observed that if it should refuse to approve the transfer of the intrastate rights, it would, as a result of the Federal commission's action, be faced with a difficult practical situation which would be resolved only by giving the interstate company the operating rights sought in this case. It con-

cluded that it would be futile to assert its authority in the face of the Federal approval.

The state law provides that certificates may be transferred only in connection with the bona fide sale of the transferor's business. The transfer of the certificate is made an incident of the transfer of the business. The department concluded that the legislature intended that certificates and the right to operate thereunder were not to be the subjects of barter and sale. The privilege of operating as a common carrier over the state highways was to be considered as a license and a personal privilege without value in the market place.

Although the department has always issued certificates piecemeal as the necessity arose, it never intended each certificate to constitute a separate and distinct

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franchise. It believed that the business of the carrier to which the legislature had reference in authorizing the transfer of a certificate as an incident to the transfer of a business was its entire business

and not such portion of its business as might be represented by one of the many certificates, or a combination of less than all. *Re Short Line, Inc. et al. DPU 9656, 9657, 9607, November 30, 1951.*



### No Jurisdiction over Branch Telegraph Office Discontinuance

THE Wisconsin commission refused to take jurisdiction over a proceeding begun by the telegraphers' union representative in regard to the discontinuance of a branch telegraph office in Milwaukee. The company planned to handle branch customers by a self-service direct telephone connection.

The commission ruled that company service in that city was adequate and that state statutes do not require that the commission approve the discontinuance of a branch office of a telegraph company maintaining a central office in the city. *Re Western Union Teleg. Co. 2-R-2308, January 11, 1952.*



### Higher Rates Needed to Improve Service

A TELEPHONE company, against which service complaints had been made, was permitted by the New York commission to increase rates. Operating expenses were found to be higher because of wage increases and the higher Federal income taxes.

There was said to be but one answer to future improved service—installation and expansion of plant and equipment, including the complete and expedited changeover from manual to dial operation. The millions of dollars required for the purchase and installation of necessary equipment, said Commissioner Bedenkapp, could be obtained only by attracting the accumulated savings of thousands of people by the issuance and sale of debt, or equity securities, or both. The company must compete in the open market with securities of other companies offering good dividends and good rates of interest with assurance of safety. He then said:

Since the only approach to better service in the Rochester area is more abundant and improved equipment, there lies before this commission two roads—one of which it must follow. It may either ignore the duty imposed upon it by the statutes of the state of New York to grant a fair return to

invested capital and starve the company so that it will be unable to purchase and install necessary equipment or it can take the sole road to improved service by fixing rates which yield a fair return. It may adopt a course which sentences the people of the Rochester area to a service which cannot improve but will steadily deteriorate or it may pursue the route which leads to the eventual solution of the service problem.

The proposed rates were higher than those in other cities in the state, but operating expenses did not appear excessive by comparison. The reason for a difference appeared to be the fact that toll revenue per telephone in the Rochester area was about the lowest of any city in the state. This appeared to result from the fact that the city had a disproportionately low volume of short-haul traffic; there were no cities or sizable villages surrounding or tributary to the city, and Lake Ontario to the north precluded any tributary toll traffic from that direction. Moreover, highly industrialized cities, such as this one, it was pointed out, generally produce less toll traffic than do cities where the prevailing occupation is more of a business office nature. The city was said to be of adequate size to be self-

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sufficient to a great degree, yet not geographically located so as to be a natural center for regional or national activities.

An argument by a few persons that since they were required to pay their own increased Federal income taxes, companies rendering utility services should do likewise, instead of passing them on to their customers, was answered with the

statement that if the return of the company thereby ceases to be adequate, the commission is required by the decision of the United States Supreme Court in *Galveston Electric Co. v. Galveston*, 258 US 388, PUR1922D 159, to pass the tax on to the consumer. *Re Rochester Teleph. Corp. Case 15403, January 29, 1952.*



### Test Year Preferred to Speculative Future Projection in Determining Fair Electric Rates

THE Maine commission granted an electric company's request for approval of new rates. The company based its request on the contention that "recently lower net earnings, higher net investment requirements, and prospective reduction in net income to arise from estimated increased expenses, including increased Federal income tax rates, combine to produce a return upon the company's net investment which is now below the fair return required by state statutes." The company also contended that, based upon its estimates for 1952, its return will become inadequate to a greater degree if present rates are not increased.

The commission, while conceding the inadequacy of the company's present return, refused to authorize rate schedules based on projections and forecasts for the coming year which it described as "inherently uncertain, speculative, and unsatisfactory." The commission indicated that it favored the test-year approach and based its computations on the company's 1951 operating results.

Plant under construction on which no interest had been charged was included in the rate base because it appeared that

such plant would be placed in service in the near future.

The working capital allowance was comprised of investment in materials and supplies plus one and one-half months of maintenance and operating expenses, excluding depreciation and taxes. Cash accrued for Federal income taxes was set off against this figure.

A claim by the company that it should be permitted to include in its working capital a sum of money representing minimum bank balance requirements in order to avoid payment of bank service charges was rejected. The commission pointed out that it would cost the ratepayer much less if the service charges were included in the expense account than if the ratepayer were required to pay an amount necessary to provide a fair return on the minimum bank balance requirements.

The commission observed that a fair return may be higher than the bare cost of capital and higher than the minimum below which confiscation would occur. A return of 5½ per cent was found to be reasonable. *Public Utilities Commission v. Bangor Hydro-Electric Co. FC No. 1382, January 22, 1952.*



### Condemnation Sale to Water Authority Criticized

THE New York commission on its own motion investigated a transfer of the waterworks system formerly operated by South Bay Consolidated Water Company, Inc., to the Suffolk County

Water Authority. The commission criticized the steps leading up to what it considered an excessive sale price but decided that it had no power to set aside the sale.

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Under Federal statutes, in the event the sale had been authorized as a part of a plan of reorganization it would have required approval of the commission. Federal courts had held that the court itself could not accomplish a reorganization by the device of a sale designed to circumvent the required approval by a state regulatory body. If the company had attempted to negotiate a sale of its property directly with the Water Authority, the state statute required commission approval. In like manner, acquisition of the stock of South Bay would have required approval.

Here, however, no approval was sought or obtained from the commission, but, in the words of the commission:

There was evolved a scheme for a judicial sale by agreement, having the semblance of a condemnation proceeding in the state court on the theory that

thereby the clear intent of the statutes, both state and Federal, would be defeated and the public deprived of the safeguards afforded by a searching examination of the details of the transaction by this commission.

Competent evidence, according to the commission, was lacking in proceedings before the commissioners of appraisal. Evidence had been presented as to reproduction cost and so-called economic value, derived from a capitalization of projected future earnings. Evidence of value based on capitalized earnings in the hands of the authority included the benefit which the authority had from tax exemption and lack of regulation, said the commission. Value to the buyer, according to the commission, has never been a proper test in condemnation. *Re South Bay Consol. Water Co. Case 15451, January 14, 1952.*



### Holding Company Dissolution Order Upheld Where Not Based Upon State Appraisal Rights

THE Securities and Exchange Commission denied a petition filed by common stockholders of Portland Railroad Company, a former subsidiary of Central Maine Power Company, requesting reconsideration and modification of an order approving a plan for dissolution of the subsidiary. The commission was urged either to provide that the rights of nonassenting stockholders remain in effect notwithstanding provisions of the plan or to reconsider the fairness of the treatment accorded to the common stockholders under the plan.

The petitioners claimed that although they did not exercise their appraisal rights under Maine law as provided for in the plan, the commission might have reached a different result if it had been advised that the Maine courts could not give rights of appraisal to nonassenting stockholders. The commission rejected this claim, saying that it did not regard a provision for appraisal rights under Maine law as affecting the extent of its responsibility to be satisfied that the plan

was fair and equitable to every interest affected.

The proposed payment of a liquidating dividend of \$110 per share had originally been found to be fair and equitable to the stockholders of both the subsidiary and the holding company. While rights of dissenting stockholders under state law might survive consummation of the plan, that belief did not enter into the basic finding of equitable equivalence between the securities eliminated and the payment provided. The finding of fairness was in no way based upon the existence of appraisal rights or other state remedies.

After the original order had been issued, the stockholders brought an action in a Maine court to set it aside. That court held that the payment of \$110 per share to the stockholders was inadequate compensation for the rights which they had given up. However, a state appellate court reversed the decision and remanded the case with instructions to dismiss it for want of jurisdiction. It reasoned that the Securities and Exchange Commis-

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sion's jurisdiction was plenary, subject only to review by Federal courts. This led to the present action.

The Securities and Exchange Commission recognized that a different result had been reached by the judge of the Maine court. In re-examining the record it carefully considered the views of that

judge, but saw no reason for altering its previous finding on valuation. It said that in the field of valuation where mathematical certitude cannot be achieved, courts and commissions may reach different results on similar facts. *Re Central Maine Power Co. File No. 54-114, Release No. 10895, November 28, 1951.*



### Natural Gas Heating Service to One-room Apartments Restricted

THE Wisconsin commission ruled that a so-called one-room apartment that has a bath separated from the rest of the space by a partition contains more than one room even though the total area is less than 400 square feet and is, therefore, subject to an order restricting natural gas service for space-heating purposes.

The restrictive order provided that a natural gas company should not deliver natural gas for operating "central space-heating equipment." The order defined this equipment as meaning one or more pieces of equipment intended to heat more than one room, or to heat a room having more than 400 square feet of floor space.

The area of each apartment, including the bathroom, had been planned to be less than 400 square feet.

On a real-estate rating basis the structure to be built would be considered as containing one-room apartments. The commission believed, however, that in the absence of any definition of "room" in the order, the term should be considered as having the meaning contained in Webster's *New International Dictionary*. This defines a room as a space enclosed or set apart by a partition. In view of this dictionary definition the commission ruled that the proposed apartments came within the restrictive order. *Re Hellerman, DR-13, January 17, 1952.*



### Other Important Rulings

A GAS company was authorized by the New York commission to amortize the cost of converting to natural gas over a 10-year rather than a 5-year period where the company was operating at a loss, where prospects of a profitable operation at present rates depended on securing additional business (which was limited because of Federal restrictions on new customers), and where it would be undesirable to increase rates sufficiently to absorb the additional cost of conversion. *Re Niagara Mohawk Power Corp. Case 14927, December 12, 1951.*

The Washington commission, in approving the issuance of a note and mortgage by a telephone company to the United States of America pursuant to the Rural Electrification Act of 1936, advised

that such approval should in no way be construed as impairing its power to fix the company's rates in accordance with applicable state laws, regardless of provisions in the mortgage giving the REA Administrator virtually complete control over the company's operations and rates. *Re Skagit Valley Teleph. Co. Cause No. U-8486, December 20, 1951.*

The Massachusetts Department of Public Utilities refused to require a railroad to discontinue night operations at one of its terminals where no question of public safety or health was involved, although the operation resulted in some inconvenience and discomfort to persons whose property abutted on the railroad. *Rogers et al. v. New York, N. H. & H. R. Co. DPU 9661, December 13, 1951.*

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The Arkansas commission approved increased telegraph rates, notwithstanding objections by newspapers, where the press had enjoyed exceptionally low rates based upon volume but there had been developed other means of communication, decreasing the use of telegraph facilities by newspapers, with the result that the company's net income had steadily decreased. *Re Western U. Teleg. Co. Docket No. U-687, January 22, 1952.*

The New York commission, in withholding approval of a sale of busses consummated previously without the required commission authorization, said that both as a matter of law and as a matter of policy it has repeatedly refused to approve violations of law retroactively. *Re Nassau Bus Line, Case 15074, November 27, 1951.*

The supreme court of Ohio, upon affirming a commission decision ordering a railroad to eliminate and correct track clearances, held that it would not substitute its opinion or judgment for that of the commission on questions of fact.

*Baltimore & O. R. Co. v. Public Utilities Commission, 102 NE2d 246.*

The United States Court of Appeals, in affirming an order of the Civil Aeronautics Board granting temporary certificates to air carriers for the transportation of freight, ruled that the board is not restricted to purely judicial or quasi judicial determinations of present or past rights in passing on a certificate application but must exercise a rational judgment upon past and present facts to ascertain the public need in the reasonably foreseeable future. *American Airlines, Inc. et al. v. Civil Aeronautics Board, 192 F2d 417.*

The Washington commission, in denying a telephone company's requested increase in certain exchange rates, observed that it is not inequitable for larger exchanges to be more profitable than smaller ones, since the service of the larger exchange is more valuable because of the larger number of stations. *Public Service Commission v. Pacific Teleph. & Teleg. Co. Cause No. U-8425, December 6, 1951.*

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MICHIGAN PUBLIC SERVICE COMMISSION

# Re Michigan Bell Telephone Company

T-252-51.19  
November 20, 1951

**A**PPPLICATION by statewide telephone company for authority to increase rates; denied.

*Rates, § 182 — Requirement of reasonableness — What the traffic will bear.*

1. Monopoly telephone rates must be just and reasonable and are not fixed upon the principle of all the traffic will bear without complaint, p. 132.

*Rates, § 120 — Reasonableness — Fairness to utility and customer.*

2. Rates are just and reasonable in so far as the customer is concerned when they are neither oppressive nor permissive of exorbitant or speculative profits for investors; and they are just and reasonable in so far as the utility is concerned when they are sufficient to cover all the reasonable costs of doing business, including interest on bonded indebtedness and a fair dividend on the equity invested in the plant, p. 132.

*Rates, § 124 — Determination of reasonableness — Revenues, expenses, and earnings.*

3. A determination of whether rates are just and reasonable in so far as both the investors and the consumers are concerned requires examination of the company's revenues, expenses, and earnings, p. 132.

*Expenses, § 83 — Telephones — Cost of parent company's activities.*

4. The cost of a parent telephone company's holding company activities should be excluded from the expense account of an operating company, p. 133.

*Valuation, § 290 — Working capital — Parent telephone company.*

5. None of the working capital of a parent telephone company will be accepted as part of the rate base of an operating company, p. 133.

*Valuation, § 245 — Rate base — Investments of parent telephone company.*

6. Investments of a parent telephone company which are used and useful in rendering services to an operating company will be included in the operating company's investment for the purpose of finding its earnings requirements, p. 133.

*Expenses, § 85 — Telephone equipment — Payments to affiliated supplier.*

7. Payments by a telephone company to an affiliated supplier of equipment for goods and services should be allowed as operating expenses, but only after the supplier is treated as if it were a public utility and entitled to no greater return than the cost of money to the operating company, p. 134.

*Expenses, § 85 — Telephone equipment — Payments to affiliated supplier.*

8. Payments made by a telephone company to an affiliated supplier of equipment cannot be determined to be either reasonable or unreasonable

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by comparison of the affiliate's prices for a few selected items of equipment, materials, and supplies with the charges of other manufacturers for similar items, since the real question is the reasonableness of the supplier's profits which have become a part of the operating company's expenses, p. 134.

### *Expenses, § 85 — Telephone equipment — Payments to affiliated supplier.*

9. Payments made by a telephone company to an affiliated supplier of equipment were adjusted prior to their inclusion in the operating company's expense account, where the supplier's profits over a 4-year period ranged from approximately 10 to approximately 12 per cent and were found to be, without question, excessive, p. 134.

### *Expenses, § 114 — Income tax — Revision in rates after close of proceedings.*

10. Changes in the tax rate applicable to a telephone company's income which take place subsequent to the close of a hearing on a rate increase application will not be considered by the Commission, since it acts on the record before it, p. 136.

### *Expenses, § 2 — Commission authority — Exclusion of unnecessary items.*

11. The Commission is vested with discretionary power to exclude from a utility's account all unnecessary elements of expense, such as nonrecurring items, and to base its determinations in a rate proceeding upon what might be termed "normalized" results, p. 136.

### *Expenses, § 83 — Telephones — Transactions between affiliates.*

12. The Commission, in considering transactions between affiliates, may disregard charges actually made and make such adjustments as are required to reflect in the operating account of a telephone company only such amounts as are found to be reasonable expenses of operation, p. 136.

### *Expenses, § 49 — Pension costs — Telephone employees.*

13. The entire cost of service pensions for the employees of a telephone company was considered a correct and proper charge to operating expenses, p. 137.

### *Valuation, § 225 — Funds to be expended to restore plant margins.*

14. A ratepayer will not be obliged to pay a return on future capital expenditures of a telephone company to restore plant margins, p. 137.

### *Valuation, § 104 — Stockholders' investment in depreciation reserve.*

15. The fact that a utility has charged more depreciation than required by the Commission in past years does not indicate that the difference between the depreciation charged and that which could have been charged should be given consideration in a rate proceeding, since the fact that stockholders did not receive a full return in past years does not give them any right to recapture lost dividends at the expense of present or future ratepayers, p. 138.

### *Return, § 35 — Effect of inflation on earnings requirement.*

16. A utility's annual earnings requirement should not be automatically inflated without regard to actual costs of operation because of the fact that the dollar has declined in purchasing power, since a ratepayer is entitled to the same protection against inflation as a stockholder and the impacts of inflation are specifically distributed throughout a utility's actual cost of doing business, so that no separate allowance for inflation need be made, p. 139.

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### *Return, § 35 — Telephones — Economic conditions.*

17. It is no argument in favor of an increase in telephone rates that such rates have increased only 21 per cent in a certain period, while in the same period earnings of the public generally have increased 100 per cent, since the Commission's obligation is to determine rates which are just and reasonable and adequate to cover the total cost of providing service, including a fair and reasonable return on the capital investment necessary to supply service, which finding is totally independent of the rise or fall of general wages or prices, except in so far as these enter into the cost of providing service, p. 139.

### *Rates, § 149 — Telephones — Increase in cost of living.*

18. The fact that the cost of living has increased substantially is no argument that telephone rates should increase proportionately without regard to increased usage, advancements in the art, technological improvements, operating economies, or other factors, p. 139.

### *Return, § 41 — Cost of capital — Intercompany relations.*

19. The cost of capital of an operating telephone company will be assumed to be the same as the cost of capital to its parent company where the operating company does not have any stock which is publicly held and where most of its financial requirements are met by the parent company, p. 143.

### *Security issues, § 99 — Proper debt ratio for telephone company — Cost of capital.*

20. A debt ratio of 45 per cent was found to be reasonable for a telephone company in determining cost of capital in a rate case, p. 143.

### *Return, § 111 — Telephone company — Cost of capital.*

21. Any level of telephone rates producing net earnings which lie within 6.3 per cent and 6.5 per cent, a company's estimated cost of capital, would meet the test of being just and reasonable, p. 143.

### *Rates, § 2 — Nature of rate making.*

22. Rate making is not an exact science, but rather is one which involves balancing the interest of public utility investors and the consuming public, p. 153.

### *Rates, § 185 — Burden of proving unreasonableness — Telephone rates.*

23. A telephone company was found not to have sustained the burden of proving that rates which the Commission had prescribed earlier had become unjust and unreasonable, where it appeared that the company would receive an additional \$2,250,000 in net income, which would be adequate to cover the slight rise in interest rates and the increase in return on equity investment found to be presently necessary, p. 153.

### *Rates, § 146 — Increase to meet future cost increases.*

24. A telephone company was not allowed an additional rate increase to meet further increases in expenses, taxes, and cost of capital which were not of record in the rate proceeding but which it alleged would occur in the future, since there is no possible way of ascertaining the extent or effect of such hypothetical costs on a company's income prior to the time they become actualities, p. 153.

### *Expenses, § 93 — Reduction in rent expense.*

Statement that a telephone company's reduction in rent expense is equivalent to additional revenue, p. 137.

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### *Valuation, § 207 — Extent of plant in use — Determination from main plant fill.*

Statement that in calculating a telephone rate base the main frame fill of a company is a reasonable index of the ratio of the plant in use to the installed plant capacity, p. 137.

### *Return, § 28 — Relationship of stock price to industrial average.*

Statement that the relationship of the price of the stock of a parent telephone company to the industrial average, as a factor indicating a telephone company's need for additional earnings, should be approached cautiously, 142.

### *Rates, § 149 — Telephones — Relationship to cost of living.*

Statement that it is a fallacy to attempt to gear telephone rates to the cost of living, p. 143.

By the COMMISSION: At a session of the Michigan Public Service Commission held at its offices in the city of Lansing on the 20th day of November A.D. 1951.

The Michigan Bell Telephone Company filed its application on May 14, 1951, seeking authority to make effective rates, rentals, and charges throughout its exchanges in the state of Michigan designed to increase its gross annual revenue approximately \$22,000,000. Various municipalities intervened on behalf of ratepayers at hearings held June 4th through June 8th before the Commission. Motions by the attorney general, at the conclusion of applicant's case, to dismiss the application and to exclude certain evidence, were disposed of by our order of July 26, 1951, 90 PUR NS 20, which is incorporated herein. That order reopened the proceeding for the submission of certain evidence and provided that upon failure of applicant to produce the required evidence the application would be dismissed. Applicant appeared at the continued hearings, held September 5th through September 7th, and produced the evidence required by said order. Accord-

91 PUR NS

ingly, we have proceeded to determine the application upon its merits. In view of our conclusions reached upon consideration of the evidence of record, no disposition need be made by us of the motion to dismiss.

We requested the concurrent filing of briefs by applicant and the attorney general due September 17th, which date was later extended to September 24th, and the briefs were duly filed.

#### *1. Just and Reasonable Rates*

[1-3] Monopoly telephone rates are not fixed upon the principle of all the traffic will bear without complaint. Rather, in exchange for the privilege of operating without competition, it is prescribed by law that rates for telephone service within the state of Michigan must be "just and reasonable," Act 206, Pub Acts 1913, Mich Stats Anno 22.1441. In so far as the user is concerned, rates are just and reasonable when they are neither oppressive nor permissive of exorbitant and speculative profits for utility investors. *Detroit v. Railroad Commission*, 209 Mich 395, PUR1920D 867, 177 NW 306; *Detroit v. Public Service Commission* (1944) 308 Mich 706, 54 PUR NS 65, 14 NW2d

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784. Rates are just and reasonable in so far as the utility is concerned when they are sufficient to cover all the reasonable costs of doing business including interest on bonded indebtedness and a fair dividend on the equity invested in the plant. *Detroit v. Public Service Commission*, *supra*; *Federal Power Commission v. Hope Nat. Gas Co.* (1944) 320 US 591, 88 L ed 333, 51 PUR NS 193, 64 S Ct 281, 37 Mich Law Rev 1209. Resolution of this issue requires examination of applicant's revenues, expenses, and earnings requirements.

### II. Intercorporate Relations

[4-6] At the outset, we are met by the complexities inherent in the fact that applicant is an integral part of a corporate nation-wide telephone system. With respect to the intercorporate relationships between the Bell System and applicant, we have recently found that:

"The Michigan Bell Telephone Company is a Michigan corporation. All of its shares of stock, other than the qualifying shares held by its directors, are owned by the American Telephone and Telegraph Company. Such stock ownership may subject the company to domination by the parent company.

"The Michigan Bell Telephone Company is one of twenty-two associated Bell System companies, who, together with the American Telephone and Telegraph Company and its manufacturing, research, and other subsidiaries, form the Bell System.

"The American Company consists of two principal departments, the Long Lines Department and the General Department. The General Department

is responsible for administering the American Telephone and Telegraph Company's investments, and for furnishing operating, legal accounting, and other advice and assistance (so-called 'license contract' services) to the operating companies. The Long Lines Department is responsible for the operation of the toll network interconnecting the territories of the operating companies, and its business is entirely interstate . . . .

"The American Company also owns the Western Electric Company, the manufacturer and supplier for the system. Western furnishes all but a minor portion of the apparatus, materials, equipment, and supplies used by the system. . . .

"The Bell Telephone Laboratories, Incorporated, is owned fifty-fifty by Western and the American Telephone and Telegraph Company. It is the research and development unit . . . ." *Re Michigan Bell Teleph. Co.* (1948) 75 PUR NS 436, 443, 444.

In addition thereto, with respect to the Bell System operating telephone companies which furnish service in all of the forty-eight states, Canada, and other foreign countries, "all are entirely owned by the parent, American Telephone and Telegraph Company, with the exception of six, a minority of whose stock is in the hands of the public. None of the Michigan Company's stock is publicly held." *Re Michigan Bell Teleph. Co.* (1950) 85 PUR NS 327, 333.

There has been no change in the intercorporate relations of the Michigan Company and its affiliates in the Bell System subsequent to the Commission's opinion and order of June 19, 1950 [cited above]. In that opin-

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ion, the Commission treated the Michigan Company as a separate, independent company and excluded from its expenses allocations of the costs of parent company's holding company activities. That conclusion is adopted for the purposes of this opinion and order, and the Michigan Company will continue to be considered to have paid the American Company for services the costs of such services. Also, none of the American Company's working capital will be accepted as a part of the Michigan Company's rate base. Other investments used and useful to the American Company in rendering services to the Michigan Company, for example, its investment in the Laboratories and in its headquarters building and in office furniture and equipment, will be included in Michigan Company's investment for the purpose of finding the earnings requirement of the Michigan Company. These findings are consistent with the previous findings of the Commission as stated in previous orders and opinions.

[7-9] With respect to Western Electric Company, we again adopt the finding stated in our June 19, 1950, opinion and order, *supra*, and again treat Western as though it were a public utility and entitled to no greater return than the cost of money to the Michigan Company or the Bell System, for it has no independent financial existence. It is not possible to secure the investors' appraisal of its securities, for none are traded—all the capital stock except approximately 0.19 per cent being held by the American Company, and it has no bonded debt. Except for short-term financing, all its capital requirements are met by sales of American Company securities, and

its cost of capital is therefore the American Company's cost of capital. The applicant in this cause has again introduced comparisons of Western's prices for a few selected items of equipment, materials, and supplies with what other manufacturers are purported to charge for similar items. These comparisons are of no evidentiary value whatever, for, as stated by the Supreme Court, in the Smith Case (Smith v. Illinois Bell Teleph. Co. [1930] 282 US 133, 153, 75 L ed 255, PUR1931A 1, 9, 51 S Ct 65): "Nor is the argument . . . answered by a mere comparison of the prices charged by the Western Electric Company to the Illinois Company with the higher prices charged by other manufacturers for comparable material, . . . ." The question is as to the reasonableness of Western's profits which have entered into the investment of the Michigan Company and of Western's profits which have become a part of the Michigan Company's operating expenses. We find that Western's profits of 12.23 per cent in 1947, 16.72 per cent in 1948, 12.37 per cent in 1949, and 10.17 per cent in 1950 were without question excessive, and have made appropriate adjustments as hereinafter indicated.

### III. Intrastate Separations

Michigan Bell Telephone Company is engaged in interstate and intrastate business. In addition to the intrastate local exchange services through its own facilities and through the use of facilities furnished jointly by it and some 147 connecting companies in Michigan, it completes toll messages within Michigan, and by the use of facilities furnished jointly by it and the Long

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Lines Department of the American Company and also by the use of joint facilities furnished by it and other connecting companies, it furnishes interstate toll services. The major portion of the Michigan Company's telephone plant is used in common for intrastate and interstate services. Similarly, the major portion of the expense is incurred in the joint rendition of these services. It is therefore necessary, for jurisdictional reasons, to make separations and allocations of the joint property, revenues, and expenses.

In these proceedings, as in previous cases, the separation and allocation was made in accordance with the principles and procedures contained in the Separations Manual prepared and published by the Joint Committee on Telephone Regulatory Problems composed of representatives of the National Association of Railroad and Utilities Commissioners and the Federal Communications Commission. The underlying principles upon which the separations are made is the use of the plant in local exchange, state toll and interstate toll service, and a division of expenses by factors determined from analysis of work operations and other appropriate studies. The Michigan Company makes monthly interstate toll settlements with the American Company and with associated operating companies. This settlement requires a determination of the interstate investment, revenues, expenses and taxes. For this purpose, a continuing study based on the methods contained in the Separations Manual is made, and the separation factors adopted in this proceeding by both the

applicant and the Commission staff are taken from those studies.

This Commission is a member of the NARUC, and on October 18, 1951, that body, in convention, unanimously approved, "on an interim" basis, a modification of the procedures contained in the Separations Manual. These findings and this opinion and order are, however, based upon the results of the separation made under the procedure prior to the revision. The effect of the revision would be to increase somewhat the net return of the company on its intrastate exchange business.

### *IV. Statement of Issues*

#### *A. The Applicant's Case*

The company presented its case largely upon the theory that the Michigan Company is a mere department of the American Company, and that all that is necessary is a reasonable allocation of the total Bell System income requirement to the various segments of the business. The earnings requirement of the entire system as of September 30, 1950, was shown as \$542,159,149 a year, of which Michigan's share was 4.695 per cent, or \$25,454,372. After a series of adjustments the Michigan Company's required contribution to the System income on the intrastate portion of Michigan's business was claimed to be \$24,600,000.

The annual intrastate earnings deficiency was measured by the applicant by determining the amount by which the year ending March 31, 1951, failed to produce \$24,600,000. The adjusted intrastate net operating income for the above period was shown to be \$18,832,000. This sum is ar-

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rived at by (a) making some 15 separate adjustments to the book figures to place them on a "going results basis" and then (b) allocating investment, reserves, revenues, expenses, and taxes by the application of factors to produce the intrastate results indicated above.

The revenue deficiency was then computed by relating the adjusted net operating income at various income tax rates to the earnings requirement at the same rates of Federal income taxes to show the additional gross revenue required to eliminate the deficiency in earnings and produce an amount sufficient to pay taxes on the higher income. At the then current income tax rate of 47 per cent, the deficiency is shown to be \$13,300,000; at a 55 per cent tax rate, the revenue deficiency is shown to be \$20,800,000; various intermediate revenue requirements based on other tax rates were also shown.

[10] During October, and since the record in this proceeding was closed, Congress revised the tax law which changed the tax rate applicable to the company's income from 47 per cent to 52 per cent effective in April, 1951. These findings and this opinion and order, being based upon the record now before us, takes no cognizance of the revised tax rate and its effect on applicant's revenues.

### *B. The Ratepayer's Case*

The Commission staff presented its case upon the basis of the Michigan Company as a separate, independent corporate entity. It showed that for the year 1950, while for all the Bell System operating companies the net operating income was 5.9 per cent of the recorded net assets, the Michigan

Company managed to earn 6.4 per cent, well above that average. The recorded results of operations for the Michigan Company for the year 1949 indicated a 4.59 per cent return on the unadjusted average net investment; for the year 1950 the rate of return on the same basis was 6.31 per cent, and for the six months ending June 30, 1951, the indicated rate of return was 6.41 per cent. The Commission staff also offered in evidence, pursuant to the Commission's July 26, 1951, order in this cause, 90 PUR NS 20, a forecast of the applicant's operating results for the calendar year 1951, which indicated a rate of return after adjustment of the various items to a "going results basis" of 7.20 per cent for the total company, and 7.31 per cent for the allocated intrastate portion.

Also, by stipulation, all the Michigan Company's monthly and quarterly controller's reports through July, 1951, are in evidence in this cause.

[11, 12] The applicant has protested against "regulation by adjustment," which protest we presume goes only to the staff's proposed adjustments for we note that the applicant's case is not without adjustments, for as previously stated there are some fifteen separate adjustments in their showing of the operating results for the twelve months ending March 31, 1951. This Commission is vested with discretionary power to exclude all unnecessary elements of expense such as nonrecurring items, and to base its determinations upon what might be termed "normalized" results. Recorded operating data must be adjusted so as to present data upon a basis that reflects prevailing current conditions.

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Also, in treating with transactions between affiliates, the Commission may disregard the charges actually recorded and make such adjustments as are required to reflect in the operating statements of the applicant only such amounts as are found to be reasonable expenses of operation.

In this opinion and order the conflicting evidence presented is reviewed and the Commission's conclusions are stated with respect to each question to be resolved.

### *V. Findings*

#### *A. Pensions*

[13] In the June 19, 1950, opinion and order, 85 PUR NS 327, it was held that the entire costs of service pensions should be included in operating expenses. Approximately \$217,000 a year is charged by the applicant to income, which amount represents the interest accrual required to freeze the unfunded actuarial reserve liability for service pensions for employees at the time the full service pension plan was adopted. For rate purposes, we will adhere to the policy heretofore adopted by the Commission. The intrastate portion is approximately \$188,000.

#### *B. Plant Margins*

[14] As previously stated, the company's computation of its income requirement was based upon the investment of the Bell System factored down to Michigan investment. The Bell System investment upon which the claim of \$24,600,000 annual income is based contains only the investment in plant used and useful. Nevertheless, the Michigan Company has offered an exhibit which purports to represent future capital expenditures

to restore plant margins. The claim is advanced that some \$15,072,000 will be invested during 1951, 1952, and 1953 to restore the deficiency in engineering margins in the plant. The implication apparently is that somehow this amount should be recognized by the Commission in the determination of the earnings requirement, and that present ratepayers should be required to pay a return upon an estimated \$15,072,000 of plant not yet built. With this unique proposal we cannot agree. We can see no obligation that the ratepayer be required to pay a return upon an investment that has not been made or in property that does not now and may never exist. Aside from the principle involved, there are grave flaws in the computation; for example, new buildings are to be constructed in Detroit and Grand Rapids which will only be initially occupied by central office switching equipment to the extent of 25 per cent and 60 per cent, respectively. The remaining portions of these buildings which represent approximately \$7,000,000 of the total claim advanced will not remain unused, however but will be immediately occupied by company personnel and used for office space. This will reduce rentals paid for space that would otherwise be occupied. Reduction in rent expense is equivalent to additional revenue, a fact disregarded by the applicant. The applicant appears to plan the restoral of margins in the cables, conduit, and central office equipment such as existed in 1940. In 1940, the main frame fill was about 50 per cent, which is a reasonable index of the ratio of the plant in use to the installed plant capacity. Today the fill is about 73 per cent. We are not convinced

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that it would be economical or reasonable to replace the wide margin that existed in 1940 as stated in our opinion and order of July 26, 1951, 90 PUR NS 20. When and as margins are restored, the investment in the plant required therefor, if found necessary and reasonable, will then be included in the telephone plant Account 100.1 and no prospective allowances need be made.

### *C. Stockholders' Contribution to the Depreciation Reserve*

[15] As in the case of plant margins, the applicant's claim for \$24,600,000 annual net operating income is based upon an investment amount which does not include the so-called "stockholders' investment in the depreciation reserve." However, an exhibit was offered which purported to show that had the depreciation been charged on the books in accordance with dicta contained in Commission orders beginning with a Railroad Commission order in 1918 on a case started in 1916, the reserve would be some \$32,728,016 less than it actually contains. This amount, in the applicant's view, represents a contribution by stockholders upon which they are now entitled to a return. If the stockholders did not receive a full return during this period, they certainly cannot at this late date endeavor to recapture, in effect, these lost dividends, at the expense of present or future ratepayers, for in a New York Telephone Company Case the Supreme Court found as follows:

"... The revenue paid by the customers for service belongs to the company. The amount, if any, remaining after paying taxes and operating expenses, including the expense

of depreciation, is the company's compensation for the use of its property. If there is no return, or if the amount is less than a reasonable return, the company must bear the loss. Past losses cannot be used to enhance the value of the property or to support a claim that rates for the future are confiscatory." *Public Utility Comrs. v. New York Teleph. Co.* 271 US 23, 31, 32, 70 L ed 808, PUR1926C 740, 745, 46 S Ct 363.

### *D. Current Investment Cost of Telephone Plant*

A form of estimated reproduction cost of the property termed "current investment cost" was offered by the company as evidence of the enhanced value of its property due to the rising price levels that have prevailed over the past several years. Objection was made by the Assistant Attorney General to the acceptance of this evidence. In our opinion and order of July 26, 1951, *supra*, upon the motion to strike all testimony and exclude all exhibits relating to this subject, we held that in view of a pending appeal on the same issue and involving the same parties now before the circuit court, pending resolution of the issue by current processes of judicial review, the motion should be denied and the evidence should be admitted.

Before discussing the testimony and exhibits dealing with estimated current cost of replacement or reproduction, it should be pointed out that the applicant's claim of \$24,600,000 of annual net operating income or return is not bottomed upon this controversial element. It is grounded upon actual investment as computed by the applicant. In view of this, it appears that

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the subject of reproduction cost at present prices is of collateral interest.

The company's evidence shows that if it were to reproduce its existing plant at current prices and wages, it would cost about 45 per cent more than was actually invested.

In addition to the foregoing, other evidences of record respecting the value of applicant's property have been considered by us. The Michigan Constitution, Art X, § 5, directs that applicant's property in Michigan be assessed "at its true cash value." The constitutional true cash value placed upon this property pursuant to this mandate and applicable statutory provisions by the Michigan State Board of Assessors for 1951 is \$208,850,000. Adoption of applicant's current investment cost value would increase its property tax from \$6,682,325 to about \$14,032,883, a result desirable to neither applicant nor this Commission. On the other hand, if we assumed the figure of \$208,850,000 as the true cash value of applicant's property, rate reduction would seem suggested.

The applicant also offered other evidence that the price level has increased. Witness Wyngarden produced a copy of page 21 of the April 12, 1951, issue of U.S. News and World Report which indicated that individuals require an annual salary of from two to four and one-half times that received in 1939 to be as well off financially. Witness Hunter showed that food cost had increased 224 per cent since 1940, clothing cost 202 per cent, and other items correspondingly.

[16-18] We do not feel that it is necessary to discuss further the evidence that the dollar has declined in purchasing power, for that fact is well

known to everyone. However, if the applicant was endeavoring to convince us that the annual earnings requirement should be somehow automatically inflated without regard to actual costs of operation, we do not agree. Were we so to do, only one class of investor could possibly benefit—the equity owner. The owner of the bonds certainly could not benefit, for his interest rate is fixed by contract for 20 to 30 years into the future. If the stock owner is entitled to protection against inflation, the ratepayer also should be afforded like protection. This could only be accomplished by reducing operating expense to the point that the service would surely fail, and the business would become insolvent, and all would lose: the investor, the employee, and the public served by the utility.

No evidence was introduced that applicant's parent company, American Telephone and Telegraph Company, intends to increase the return actually paid its stockholders, rather, continuation of the dividend at the historic \$9 per share figure is indicated. We conclude that the impacts of inflation are specifically distributed throughout applicant's actual costs of doing business and so long as we give effect to them in consideration of such costs, no separate allowance need be made.

### *E. Revenues*

Applicant's revenues are derived through furnishing local exchange and interstate and intrastate toll communication services, together with certain miscellaneous services such as installation of instruments, directory advertising, and the like. This Commission has no jurisdiction over rates for telephone communications extending across Michigan boundaries and ac-

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cordingly interstate revenues must first be separated from those derived from the intrastate services of applicant. Interstate revenues arise from the furnishing of leased wires, interstate toll calls, etc., and may be separated from intrastate revenues by the segregation of toll billing between the two groups.

Total intrastate revenues are the product of the number of subscribers, times the calling use made by each subscriber, and times the applicable rates for the service furnished. Revenues may, therefore, increase or decrease in accordance with change in the number of subscribers, increases or decreases in use of the telephone by each subscriber, and increases or decreases in rates for telephone service.

Actual total reported revenues for the year ending 1950 amounted to \$143,686,627. Of this amount, intrastate revenues of the applicant for this period were \$129,589,000. There was, however, during this year an increase in local rates effective on June 20, 1950, which was estimated to amount to about \$9,000,000 a year, based upon the stations then in service. Had these rates been in effect the full year 1950, the intrastate revenue would have been approximately \$4,500,000 more than was actually realized, or about \$134,000,000.

For the twelve months ending March 31, 1951, the intrastate revenues, after adjustment to give effect to the June, 1950, rate increase as though the rates had been charged for the full period, amounted to \$136,326,000.

On an annual basis, the intrastate revenues for the first six months of

1951 amounted to approximately \$140,282,000.

The Commission staff has estimated the 1951 intrastate revenues to be \$142,199,000. This estimate is based upon a forecast of an average of 1,890,206 telephones in service for the year 1951, or an estimated total station gain of 98,000 for the year, and total annual revenue of \$84.03 plus, per telephone. Upon the basis of the recorded revenues and station gain through July, 1951, it appears that the staff's forecast is reasonably accurate and sufficiently reliable for the purpose of testing the adequacy of present intrastate rates. We accordingly find that applicant's intrastate revenue for the year ending 1951 will be \$142,199,000. Applicant's intrastate revenue under existing rates for the year 1951 will then exceed 1950 revenue by \$12,610,000.

In its petition, the applicant offered as arguments the fact that telephone rates, on the average, had increased only 21 per cent since the end of the war while "earnings of the public generally" had increased 100 per cent and price levels have increased 84 per cent. Mr. Greene in his testimony stated that the weekly pay rate in the manufacturing industries had increased by about 136 per cent between 1940 and February of 1950 as contrasted with the 21 per cent increase in telephone rates on the average. In the company's petition (p. 3) it is stated that the market price of A.T.&T. stock was equal to more than 100 per cent of the Dow-Jones industrial average and is now (May, 1951) only about 65 per cent of that average, which is interpreted to mean that Bell System se-

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curities are "to be discounted," to use the wording of the petition.

These comparisons are mentioned only to point out some of the dangers of putting too much faith in them for the purposes of establishing rates for service. The statute charges this Commission with finding rates that are "just and reasonable" which we have always interpreted to mean that the rates should be adequate to cover total costs of providing service, including a fair and reasonable return on the capital investment necessary to supply the service. This is entirely independent of what wages, prices, or other costs might have done except as these enter into the cost of providing telephone service.

We assume that the statement that telephone rates have increased on the average of 21 per cent since the war (at other places the implication is that the comparison is to be made with pre-war indices) is derived from the combination of the postwar increases as related to revenues at the time each increase became effective. It would be well to point out that as useful as such averages may be, caution should be observed in their use since the average result may be of little consolation to the individual who may have felt an impact many times the average. The following tabulation of specific increases in rates illustrates this point:

Typical Rate Changes Since 1946

Area	1946	1948		1950		
	Rate	Rate	% Increase Over 1946	Rate	% Increase Over 1948	% Increase Over 1946
<i>Detroit</i>						
1-Bus. (MR) *	\$12.75	\$13.72	7.6%	\$14.22	3.6%	11.5%
2-Res. (FR) .....	4.50	4.75	5.5	5.00	5.3	11.1
<i>Royal Oak</i>						
1-Bus. ....	4.00	7.50	87.5	8.00	6.6	100.0
1-Res. ....	3.00	3.75	25.0	4.00	6.6	33.3
<i>Flint</i>						
1-Bus. ....	7.00	8.50	21.4	9.50	11.8	35.7
4-Res. ....	2.25	2.50	11.1	3.00	20.0	33.3
<i>Newaygo</i>						
1-Bus. ....	2.30	4.00	73.9	5.00	25.0	117.0
4-Res. ....	1.35	1.75	29.6	2.25	28.5	66.6

\* Service cost based on 1949 average message use.  
(Source: Rates and tariffs filed with Commission.)

It is granted that the cost of living has increased from earlier days. We do not see that this is any argument that telephone rates should increase proportionately without regard to increased usage, advancements in the art, technological improvements, operating economies, or other factors. Would the company be happy with unconsidered rate reductions proportionate to any decline that might take

place in the consumer's price index in the future? The index actually stood in August, 1951, at almost exactly twice the 1933 level, but this is by no means an argument that all factors have or should have increased proportionately. Costs of borrowing debt money, for example, are only about 70 per cent what they were in 1933 as indicated by Moody's Aaa bond averages. Government bonds show a sim-

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ilar relationship. (See Moody's Public Utilities—1951, p. a5.) Outside line construction is now performed with 2-man crews, whereas 5-man crews were formerly used. Other examples could be cited.

Finally, the relation of the price of American Telephone and Telegraph Company stock to the Dow-Jones industrial average should be approached cautiously. While the relationship changed, from prior to 1946 as compared with the present, many other factors have changed also. Most industrial companies are now paying substantially greater dividends per share than they were prior to 1946. An indication of this can be obtained from figures in Moody's Public Utilities for 1951, page a7, on 125 industrial stocks. From 1930 to 1946, inclusive, these stocks averaged dividends of less than \$1.85 per share, dropping as low as 76 cents average; since 1946 they have climbed each year until they stood at \$3.77 in 1950, an increase of 104 per cent over the 1946 average. In the meantime, the A.T. & T. dividend has remained at its traditional \$9 level. Furthermore, the average yield on the 125 industrials was 3.75 per cent in 1946, compared with the yield on A.T. & T. of 4.85 per cent, and in 1950 these positions had reversed, 6.51 per cent on industrials and 5.91 per cent on A.T. & T. This would indicate a substantial improvement in the market position of the A.T. & T. Company's stock relative to industrial stocks, based on yield relationship alone and assuming other things equal. Of course, other things are not equal as indicated above and the danger of using crude comparisons

without critical analysis is demonstrated.

As a final comparison in respect to the cost of living, we call attention to the fact that telephone rates should not necessarily show the same degree of variability as does the price index. The chart on the following page [omitted herein] indicates the trend of three items computed as indices on a 1925–1929 base; the cost of living (or Consumers Price Index as it is now called), average revenue per station, and the 2-party flat rate residence service in Flint. The Consumers Price Index is from the U.S. Department of Labor, Bureau of Labor Statistics, as published in the 1951 Statistical Abstract of the United States, page 285. It is converted to a 1925–1929 base by taking the average of the index for these five years on the 1935–1939 base and dividing each year's index by this average. The average revenue per telephone, which includes toll as well as exchange charges and is affected by the usage as well as by the composition of customers (per cent business and residence; one-party, 2-party, and multi-party; rural and urban; etc.) is from the Company Exhibit 9, p. 106, expressed as an index of the 1925–1929 average, and the Flint flat rate for 2-party residence service is from previous orders of this Commission. Flint was chosen since it is a large city which has not changed rate classes and still offers only flat rate residence service, and therefore appears to be less affected by extraneous factors than other areas might. The extra line added on the chart between 1928 and 1938 represents the maximum extra charge which was carried at that time

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for handsets. Originally, the charge was 50 cents per month, but no information was available as to when it was reduced to 25 cents per month so the latter was used initially. After May, 1934, the charge was limited to eighteen months and was reduced to 15 cents for eighteen months on July 1, 1936. It was removed completely on January 1, 1938.

It will be noted that while the price index suffered a severe decline in the early 30's, the other two indices did not do so; the average revenue curve only dipping moderately, which could be due to downgrading and reduction in toll use, and the flat rate curve not declining at all. These curves stayed above the price index curve until 1946, and since then both have tended to follow the cost-of-living curve. We think this very effectively demonstrates the fallacy of proposing that

telephone rates be geared to the cost of living—particularly to urge that they be raised when that index is rising although rates did not follow that index down in the 1930's.

It should be pointed out that there are other factors than rates which can cause company revenues to increase. One of these is growth in number of customers served and the other is in the average amount of use per customer of the measured services. Thus, while the applicant has received total increases, according to the petition, of 21 per cent since the latter part of the 30's (increases effective September 28, 1948, June 30, 1949, and June 19, 1950), total revenues have increased 254.3 per cent as shown below. During the same period, revenue per station has likewise constantly trended upward having increased during this period 24.5 per cent.

	Total Revenues	Per Cent Increase	Revenue Received Per Telephone	Per Cent Increase
1937	\$40,557,974	0	\$64.21	0
1938	40,116,216	(1.1)	60.53	(5.7)
1939	43,381,059	7.0	61.00	(5.0)
1940	47,825,057	17.9	61.41	(4.4)
1941	54,159,333	33.5	61.74	(3.8)
1942	60,523,283	49.2	61.57	(4.1)
1943	68,546,035	69.0	63.47	(1.2)
1944	72,712,506	79.3	65.30	1.7
1945	80,805,773	99.2	71.15	10.8
1946	91,408,342	125.4	71.62	11.5
1947	96,966,087	139.1	67.44	5.0
1948	113,149,134	179.0	71.14	10.8
1949	128,647,704	217.2	75.35	17.3
1950	143,686,627	254.3	79.96	24.5

( ) Indicates decrease.

Therefore, while rate increases were responsible for a 21 per cent increase in revenues, usage was responsible for 24.5 per cent and growth for the remaining 135.3 per cent ( $1.210 \times 1.245 \times 2.353 = 3.543$ ).

### *F. The Cost of Capital*

[19-21] Testimony on the cost of

capital to the Michigan Company was introduced by witnesses Allen, Wyngarden, and Hunter for the company, Sheppard for the city of Grand Rapids, and Fichthorn for the Commission staff. Witnesses Allen and Fichthorn offered complete developments, the others offering only corroborative testimony.

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Both witnesses used the approach which assumed that the cost to the Michigan Company is that of the American Company since the Michigan Company does not have any stock publicly held and since most of its financial requirements are met by the parent company. This is consistent with the approach adopted by this Commission in previous decisions involving the Michigan Company.

The cost of debt capital was developed on a historical basis by both Allen and Fichthorn and both arrived at the cost of approximately 3 per cent for this component of capital. In Allen's development, it was pointed out that recent issues of debt capital have been made at times when the debt ratio was quite high and that such fixed capital costs may be higher than they otherwise might have been. On the other hand, he points out that the average debt ratio when the presently outstanding securities were issued was substantially lower than the present level—a counterbalancing factor to the previous statement. He therefore concluded that 3 per cent is a reasonable allowance for debt capital at the present time.

Fichthorn also arrived at 3 per cent for a reasonable allowance based on the historical cost of presently outstanding debt. In addition, Fichthorn estimated the cost of new debt money at current market levels and with the company's present financial condition at 3.31 per cent. He used the 3 per cent historical cost in his calculations rather than the 3.31 per cent figure due to the fact that the company will not replace all its capital under the present circumstances; that the debt ratio is higher now than it has aver-

aged when the present debt capital was issued and that the security market is poorer now than it was while much of the capital was issued. It is also true that because of the contractual nature of the debt charges, the historical cost is the actual cost currently to the company for that portion of its capital. Even though the current cost of new capital should rise, it would only affect new increments of debt capital, since outstanding debt contracts would not be changed by such factors. As a result, the current over-all cost of debt capital would only rise to the new level gradually as the old contracts expired and had to be replaced at the new rates.

Recent experience indicates that it is not necessary to assume a 33 $\frac{1}{3}$  per cent debt ratio as urged by witness Allen in conjunction with a 3 per cent cost for the debt component. In the 1946-1950 period, inclusive, the company has raised a total of \$3,812,041,000 of new capital of which 63.4 per cent was in the form of debt capital. This represents almost a doubling of the company's capitalization during the 5-year period. The average debt ratio during this period was approximately 44 per cent. In spite of this substantial debt ratio, \$2,135,000,000 of debt capital was raised at an average cost to the company of 2.93 per cent as shown in Company Exhibit 13, page 705. This indicates that for computation of a current rate of return it would not be unreasonable to use a debt cost of 3 per cent in conjunction with a 40 to 45 per cent debt ratio. Witness Sheppard testified that in his opinion the Bell System could operate conservatively on a 45 per cent debt ratio. Sheppard also pointed out

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the benefits of substantial tax savings that a company can gain through higher debt ratios in view of present high corporate income taxes.

Bond coverage as expressed by the usual "times interest earned" need not be nearly as high with today's income taxes as it did in past years. The present high tax rates mean that for each dollar of revenue decline, the income available for bond interest will only decline about 50 cents. Therefore, a coverage of three times earnings, say, now represents a much greater shrinkage of revenue that could be withstood without endangering bond interest than would have been true in the late 20's when tax rates

were only about one-fourth of the present ones.

This greater safety of interest payments and the fact that each dollar of gross earnings that can be shifted from equity earnings to bond interest saves about one-half dollar of tax money which accrues to the benefit of the stockholders means that substantially higher debt ratios are now more desirable than the lower ratios that may have been necessary in former years.

The following hypothetical example of a \$1,000,000 company regulated to an over-all return of 6 per cent under two alternative capitalizations is interesting:

(A) $\frac{1}{3}$ Debt @ 3% $\frac{2}{3}$ Equity		(B) $\frac{1}{3}$ Debt @ 3% $\frac{2}{3}$ Equity	
\$60,000	Necessary earnings after taxes	\$60,000	
10,000	Bond interest requirement	15,000	
50,000	Balance available for common	45,000	
666,667	Amount of Common Equity	500,000	
7.50%	Return on equity capital	9.00%	
\$104,340	Necessary gross income before taxes	\$99,906	
* 44,340	Total taxes at 47% (after bond interest)	* 39,906	
\$60,000	Gross Income after taxes (required earnings)	\$60,000	
* Computation of Taxes:			
\$104,340	Gross before taxes	\$99,906	
10,000	Bond Interest	15,000	
\$94,340	Taxable Income	\$84,906	
44,340	Taxes at 47%	39,906	

This example is worthy of thoughtful study. It will be noted that the return of 6 per cent has been set in each case to give a gross income after taxes of \$60,000 as implied in the hypothesis. However, in case (A) ( $\frac{1}{3}$  debt ratio) where a gross income before taxes (i.e., revenues less all expenses other than income tax) of \$104,340 was necessary to achieve this result, the return to equity was only 7.50 per cent while in case (B) ( $\frac{2}{3}$  debt ratio)

only \$99,906 of gross income before taxes was necessary and the equity, furthermore, received a return of 9 per cent. The question of comparative safety of interest can be quickly answered also for the two cases. Because of the large tax cushion, the gross income before taxes would have to decline 90.4 per cent in case (A) and 85 per cent in case (B) before bond interest would fail to be completely covered, indicating very little

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difference in the two cases regarding safety of interest coverage.

Granted that this higher debt ratio adds more leverage (and more possibility of fluctuating earnings) to the common stock, this leverage is partially nullified by the high tax rates which smooths out "after tax" earnings, although "before tax" earnings may have wide swings. Furthermore, the benefit of deductible interest so enhances the return on common equity (from 7.5 per cent to 9 per cent in this case) that the slightly greater instability of common earnings is more than compensated. This point is forcefully demonstrated in Fichthorn's exhibit. In the group of 14 large electric utilities with "normal" pay-out ratios of 65 per cent to 75 per cent, the average dividend yield on market prices ranged from 5.34 per cent on those with less than 25 per cent of income absorbed by charges and preferred dividends to 6.26 per cent for those with absorptions over 40 per cent. This indicates that stock purchasers gave only slightly greater weight to a four or more times coverage, as it affected common stock, than they did to a coverage of less than two and a half times.

In contrast to the debt ratio of 45 per cent urged by witness Sheppard, with which he claimed the company could operate conservatively, witness Fichthorn based his analysis on a maximum ratio of 40 per cent, and witness Allen based his capital cost on a 33½ per cent debt structure. Allen's arguments were centered on the fact that the long-standing policy of the company has been to operate on a very conservative ratio, the necessity of a low debt ratio to protect the company policy of maintaining the \$9 dividend,

and the need for a substantial margin of borrowing capacity to provide for the contingency of rapid expansion during a period when equity market conditions might be poor. Fichthorn partially agreed with these principles in that he reasoned that the expansion period might be expected to continue for some time and that because of expense increases, the capital growth would be necessary to provide more mechanization in order to lower the operating ratio. For these reasons he stated that maintenance of a reasonable borrowing margin is a wise policy, although he concluded that a 40 per cent debt ratio would provide this margin.

We concur in the objectives as stated by Allen from the standpoint of the financial managers of the business, but as a regulatory body we think it appropriate to ask the question, "How much should be paid for this protection?"

As pointed out above, we feel that the bond cost could hardly be affected by adoption of a 45 per cent ratio inasmuch as the high tax rate cushions the interest coverage ratio. Past history demonstrates that ratios of even greater than 50 per cent have been taken in stride with no discernible effect on debt capital costs and that since the early 20's the fluctuation has been between about 26 per cent and 52 per cent. Fichthorn computed the average during the 1922-1950 period at 37.4 per cent, and also that the present structure would be 37.26 per cent if all present convertible debentures were converted to common stock. Notwithstanding testimony by witness Allen, no one has suggested that the Bell System has ever had any actual

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difficulty during this period in raising additional debt capital. We point particularly to the 5-year period of 1946-1950 in which over \$2 billion of debt capital was obtained, during four of which years the debt ratio was in excess of 45 per cent.

Since there obviously should be room for some fluctuation in the debt ratio, the ratio adopted for the present determination should not be the lowest possible nor the highest possible, but should represent a reasonable average in view of present and future conditions and circumstances, as nearly as they can be foreseen. In view of current conditions of security markets and tax rates, the recent history should, therefore, be of more significance than averages running back through the 20's when conditions were substantially different.

A simple calculation shows that with debt capital costing about 3 per cent and with over-all costs of capital assumed at 6 per cent, the absorption ratio (per cent of total income absorbed by fixed charges) would be 22.5 per cent with a 45 per cent debt ratio and 20 per cent with a 40 per cent ratio. At an over-all capital cost of 6.5 per cent, the absorption ratios would be 20.89 per cent and 18.5 per cent, respectively. These differences of about 2.5 per cent in absorption ratios, we believe, would not be enough to substantially alter the credit standing of the company and in any event are in the highly conservative range.

In view of these considerations, we find that a debt ratio of 45 per cent is a reasonable one for cost of capital calculations, and the following computation of common stock costs and over-

all cost of capital will be predicated on such a debt structure.

Witness Allen developed his cost of equity capital primarily on the basis of historical averages. He showed that the average return on equity applicable to A.T.&T. stock for the 1921-1950 period was 7.78 per cent and then reasoned that the return currently should be nearer the top of the range (11.26 per cent to 3.82 per cent) since we are currently in the upper phase of the economic cycle. This was then compared with various other trends in an attempt to demonstrate a relatively worsened position of Bell System equity as compared with industrial companies. His conclusion was that equity capital should be placed on a 9.75 per cent return basis.

Fichthorn used three separate approaches to the cost of equity capital, the first based on dividend yields of outstanding stock of large electric utilities, the second based on dividend yield differentials of new issues of telephone company stocks and an average of public utility common stocks, the third being based on the average earnings price ratios of 14 utilities. The third method was used as a check on the first two methods. In each case the results were adjusted by appropriate factors to arrive at Bell System concomitants and to adjust to his adopted standards of a 40 per cent debt structure and a 70 per cent dividend pay-out ratio.

On Fichthorn's first method, he arrives at a cost of 8.76 per cent for equity capital including 30 per cent retained earnings and 12 per cent of marketing costs and pressure, while his second method results in a cost of 8.91 per cent. The method also pro-

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duced an 8.76 per cent rate, and in the over-all cost of 6.50 per cent the common stock cost component is valued at 8.83 per cent.

In Fichthorn's first method, by analysis of the outstanding stocks of several large utilities, their absorption ratios and dividend pay-out ratios, and comparison with the American Company's relative investment position, he arrives at a dividend yield to the public of 5.40 per cent which is then converted to a cost of equity capital to the company by application of factors representing a 70 per cent dividend pay-out ratio and 12 per cent flotation costs. Table XI of Fichthorn's presentation shows that the 16-year average of yield to the public on A.T.&T. stock is 5.89 per cent and that the actual pay-out over this period has been 92.34 per cent. At no time except for the partial year 1951 included in this table has the dividend pay-out been as low as 70 per cent, and as was pointed out at several places in the testimony, more than 100 per cent was paid out in four of the sixteen years. Examination of Table XVII-XI indicates that there is a definite, positive relationship between pay-out ratio and yield; i.e., as the pay-out ratio is larger the yield to the public will be higher rate. Therefore, we have little doubt that had the actual pay-out averaged as low as 70 per cent, the yield would have also averaged far below the actual 5.89 per cent as shown in this table and had a higher pay-out ratio been adopted by Fichthorn, a somewhat higher yield to the public would have resulted, but this would be more than offset in the company's equity cost figure by virtue of an expansion factor based on the higher pay-out

ratio. For example, a common stock cost of 8.76 per cent, after adjustment for flotation costs and an 80 per cent pay-out ratio, would indicate a yield of 6.17 per cent as compared with the 5.40 per cent yield based on a 70 per cent pay-out ratio in Fichthorn's analysis. However, the history of this stock is that yields as high as 6.17 per cent have not been demanded by investors in spite of pay-out ratios substantially in excess of 80 per cent. During the past sixteen years the pay-out ratio has averaged 92.34 per cent and the yield has exceeded 6.17 per cent in only four of these years. In the 1946-1951 (to August 3rd) period, the pay-out ratio has averaged over 88 per cent while the yield to the public exceeded 6.17 per cent only once. As a further indication of the company's credit during this postwar period, \$1.6 billion of equity capital has been acquired even though the debt ratio has averaged well in excess of 40 per cent.

We are aware that the adoption of a 45 per cent debt ratio, on the other hand, may have some effect on Fichthorn's derived cost of equity capital, tending to increase this cost to some extent. In view of the fact that the absorption ratio is very conservative in this case and that the equity cost has been based on such a conservative dividend pay-out ratio, we are, however, not inclined to believe that this effect would be substantial.

Upon examination of all the factors above and the testimony offered by witnesses Allen, Fichthorn, and Shepard on the subject, we are of the opinion that if a 45 per cent debt and 55 per cent equity structure were adopted, the common stock cost component ap-

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appropriate to this order would be 9 per cent.

Combining the components of capital costs we arrive at the following summary:

	Per Cent of Capital	Rate	Cost
Debt Capital .....	45%	3.00%	1.35%
Equity Capital ....	55%	9.00%	4.95%
Combined Cost ...	100%		6.30%

If a 40 per cent debt and 60 per cent equity capital structure were to be adopted, however, as in Fichthorn's analysis, the equity cost of 8.83 per cent would, we feel, be appropriate, and the over-all cost of capital would be developed as follows:

	Per Cent of Capital	Rate	Cost
Debt Capital .....	40%	3.00%	1.20%
Equity Capital ....	60%	8.83%	5.30%
Combined Cost ...	100%		6.50%

The two over-all costs of capital of 6.30 per cent and 6.50 per cent above, based on capital structures of 45 per cent debt and 40 per cent debt, respectively, are both within the zone of reasonableness, and we believe that any level of rates producing net earnings which lie within this zone would meet the tests that rates be just and reasonable.

We do not believe that the two figures represent the upper or lower limits of confiscation and oppressiveness, but are each well within the limits as expressed by Justice Brooks in his concurring opinion in the case of *Detroit v. Railroad Commission*, 209 Mich 395, PUR1920D 867, 901, 177 NW 306: "Between the point where

a rate may be said to be so low as to be confiscatory and the point where it must be said to be so high as to be oppressive upon the public, there is a 'twilight zone' within which the judgment of the Commission may operate without judicial interference."

### *G. Earnings Requirement*

On the basis of evidence of record, the annual net operating income, or return, required by the applicant on its intrastate business is found to be between \$18,605,000 and \$19,862,000 as indicated on the following tables. This finding is based upon the actual average capital obligations, premiums, and surplus of the applicant for the 6-month test period ending June 30, 1951, and as of June 30, 1951, for the test period consisting of the year 1951 modified by certain adjustments hereinafter discussed. Applying the cost of the various components of capital previously discussed, the earnings requirement on both the basis of a 40 per cent debt component and a 45 per cent debt component for the two test periods selected are [see page 150].

The foregoing finding is premised upon the rule stated in the *Hope Case*, 320 US 591, 603, 88 L ed 333, 51 PUR NS 193, 200, 64 S Ct 281, where the court said: "From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. . . . By that standard the return to the equity owner should be commensurate with the returns on investments in other enterprises having corresponding risks."

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## TOTAL CAPITAL EMPLOYED

(Dollars in Thousands)

	Six-month Period Ending June 30, 1951	Year 1951
Average Capital Obligations .....	\$319,454	\$330,554
Deduct Excess Western Electric Company Prices .....	3,935	3,935
Add: American Company Investment Allocated to Michigan .....	1,039	1,039
Total Capital Employed .....	316,558	327,658
Intrastate (93.29%) .....	\$295,317	\$305,672

## EARNINGS REQUIREMENT

(Dollars in Thousands)

Six-month Test Period Ending June 30, 1951:

(a) Based on 40 Per Cent Debt Ratio

40% Debt, \$118,127 @ 3% .....	\$3,544
60% Equity, \$177,190 @ 8.83% .....	15,646

Total \$295,317 .....

(b) Based on 45 Per Cent Debt Ratio

45% Debt, \$132,893 @ 3% .....	3,987
55% Equity, \$162,424 @ 9% .....	14,618

Total \$295,317 .....

Year 1951 Test Period:

(a) Based on 40 Per Cent Debt Ratio

40% Debt, \$122,269 @ 3% .....	3,668
60% Equity, \$183,403 @ 8.83% .....	16,194

Total \$305,672 .....

(b) Based on 45 Per Cent Debt Ratio

45% Debt, \$137,552 @ 3% .....	4,127
55% Equity, \$168,120 @ 9% .....	15,131

Total \$305,672 .....

The actual amount of money invested is represented by the above computations, based upon the applicant's own recorded book figures. The capital obligations of the applicant on June 30, 1951, were as follows:

Common Stock .....	\$230,000,000	69.58%
Funded Debt .....	75,000,000	22.69
Advances from Affiliated Companies .....	9,700,000	2.93
Surplus .....	15,853,613	4.80

Total ..... \$330,553,613 100.00%  
(From Michigan Bell Telephone Company  
Comptroller's Monthly Report No. 1, June  
1951.)

In the foregoing tables we have deducted the amount which represents  
91 PUR NS

the difference between the prices actually charged by Western Electric Company, Inc., since 1947 for equipment, materials, and supplies that have been capitalized by the Michigan Company, and the prices that would have been charged had Western's prices included only 6 per cent for return upon its investment. This is the same finding as that of the Commission's opinion and order of June 19, 1950, 85 PUR NS 327.

The investment of the American Company in property used in rendering license contract services to the Michigan Company is included in the calculation. This is consistent with previous findings by the Commission,

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and does not make allowance for any part of the American Company's "excess of current assets over current liabilities" (which is usually termed "working capital"), which also in previous cases before the Commission has been labeled "funds held available to make temporary cash advances to the operating companies." With respect to the basis of this disallowance, there is considerable discussion in each of the Commission's opinions in Michigan Bell's general rate cases commencing with the December 13, 1945, opinion and order, 62 PUR NS 77, which is now on appeal to the Michigan Supreme Court. These preceding opinions and the several briefs filed in the appeal proceedings all clearly state the Commission's views on this subject, which viewpoint has been sustained by the Ingham county circuit court.

### *H. Earnings Available*

In this proceeding, financial operating results of various periods are in evidence that may be used to test the adequacy of present rates and charges of the applicant. The Michigan Company offered as the test period the twelve months ending March 31, 1951. During this period, conditions changed quite materially and the applicant, therefore, offered some 15 separate adjustments to the actual results to reflect conditions current on March 31, 1951. Among these adjustments was the general wage increase amounting to approximately \$4,733,000 on an annual basis which became effective about November 15, 1950. Also, the results were adjusted for the \$8,900,000 rate increase made effective by the June 19, 1950, order of the Commission, *supra*. Another

adjustment was made to carry back to expenses some \$212,000 interest accrual relating to the unfunded liability for service pensions which are charged to income on the company's books. During this test period, after adjustments, the company indicates that it had \$18,832,000 for return upon its intrastate services.

To further test the adequacy of the present rates, the actual results of the 6-month test period ending June 30, 1951, have been adjusted in the manner adopted by the Commission in its 1948 and 1950 findings: (1) To eliminate the one per cent of gross revenue fee to the American Company for license contract services and substitute an estimate of the costs to the American Company, (2) to eliminate the estimated effect of Western Electric Company, Inc., prices for maintenance and operating equipment, materials, and supplies which were higher than necessary to provide Western with a return during the 6-month period, at the rate found reasonable for the Michigan Company, (3) to reflect in expenses, pension costs charged against income, (4) to adjust income taxes to reflect the tax saving resulting from a 45 per cent debt ratio which increases interest deductions from taxable income, and finally, (5) to adjust income taxes for items (1) and (2). On an annual basis, the indicated annual return intrastate amounts to approximately \$20,198,000 as shown in the table. [See page 152.]

One further test period may be applied: The staff's forecast of 1951 results. This estimate indicates a return of \$21,668,240, annually. Certain of the expense items were challenged by the company upon the basis that the

# MICHIGAN PUBLIC SERVICE COMMISSION

## INTRASTATE RESULTS

Based on First Six Months of 1951  
(Dollars in Thousands)

	Six Months
Reported Revenues .....	\$70,141
Reported Expenses .....	49,260
Reported Net Revenue .....	20,882
Reported Taxes .....	11,229
Reported Net Operating Income ..	9,651
Adjustments:	
Add:	
General Services .....	653
Western Electric Price Adjust- ment .....	105
Tax Saving on 45% Debt .....	387
Deduct:	
Pensions Charged Income .....	94
General Services .....	468
Income Tax Adjustment .....	(136)
Adjusted Operating Income,	
Six Months .....	\$10,099
12-Month basis (x2) .....	\$20,198

estimated results could not be obtained. We have given consideration to these objections and have adjusted the maintenance and traffic expenses to place the estimate on the "going basis" experienced during the first six months of 1951. The results indicated by this revised estimate are as follows:

## ESTIMATED 1951 INTRASTATE RESULTS

(Dollars in Thousands)

Revenues .....	\$142,199
Expenses .....	
Maintenance .....	32,256
Depreciation .....	15,143
Traffic .....	21,757
Commercial .....	14,146
General Services .....	1,341
Revenue Accounting .....	3,473
Rents .....	1,723
Relief and Pensions .....	4,776
Other Expenses .....	4,870
Total .....	\$99,485
Net Revenue .....	42,714
Taxes:	
Federal Income .....	14,597
Other .....	7,752
Total .....	\$22,349
Net Operating Income .....	20,365
Adjustments .....	896
Adjusted Operating Income—1951 ..	\$21,261

91 PUR NS

The applicant's annual intrastate return requirement was at least equalled by the income actually received during the 12-month period ending March 31, 1951, offered by the applicant as a test of the adequacy of return; was exceeded by the annualized results of the 6-month period ending June 30, 1951, and is exceeded by the staff's estimate of results of the full year 1951 as adjusted.

The evidence, in our opinion, is conclusive that the applicant requires no increase in rates as of the close of the record. In this determination, generous allowances have been made. It would be reasonable in treating with the Michigan Company's purchase from Western to examine all transactions relating to property surviving at the time of the investigation and adjust the investment to exclude all profits in excess of those reasonable to an operating utility.

Also, in the matter of separations of the property and expenses as between interstate and intrastate, we have accepted the applicant's computations, whereas, in many jurisdictions such has not been the case. Even though the basic Michigan intrastate toll message rates are from 5 cents to 15 cents higher at virtually all distances than the rates for interstate service or 30 per cent higher over-all, the indicated rate of return for 1950 was 155 per cent higher on the interstate toll than on the intrastate toll business of the applicant. The record in this proceeding indicates that a substantial subsidy is being carried by the local exchange rates to support the intrastate toll business. Perhaps the burden could be more equitably borne by the interstate business which, ac-

## RE MICHIGAN BELL TELEPHONE CO.

cording to the studies which have been in evidence in connection with the postwar rate proceedings, has consistently shown a profit in excess of either the exchange business or the intrastate toll business.

As stated in our discussion of the Intrastate Separations, the NARUC has lately, and since the record was closed in this proceeding, adopted new separation procedures which will have the effect of enhancing intrastate toll earnings somewhat, and ameliorate the toll earnings disparities above noted.

### VI. Conclusion

[22-24] Rate making is not an ex-

act science; instead it involves balancing the interest of public utility investors and the consuming public, Detroit v. Public Service Commission (1944) 308 Mich 706, 54 PUR NS 65, 14 NW2d 784. Viewed from the standpoint of investors, the evidence indicates that the financial position of applicant, and its parent corporation, has improved considerably over that which we considered in our orders of September 28, 1948, 75 PUR NS 436, and June 19, 1950, 85 PUR NS 327. The following table reveals the comparative financial position of American Telephone and Telegraph Company:

### AMERICAN TELEPHONE AND TELEGRAPH COMPANY

#### Comparative Financial Position Consolidated Basis

	1948	1949	1950	(12 Mo.) August 1951
Operating Ratio .....	86.5%	85.5	79.5	78.5
Times Over-all Charges Earned .....	3.43	3.06	4.03	NA
Return (Operating Income to Net Plant) .....	4.16%	4.26	5.88	NA
Earned Per Share (Average Shares) .....	\$9.86	\$9.70	\$12.58	\$12.67
Price Per Share (Average of High & Low) .....	\$144.31	\$153.31	\$154.00	\$155.38*
Yield on Common Stock .....	6.83%	6.33	5.84	5.79**
Yield on 24 Utility Stocks (Moody's) .....	5.85%	5.86	5.66	5.72**
Differential Yield (AT&T-24 Utilities) .....	0.98%	0.47	0.18	0.07**
Yield on 200 Common Stock (Moody's) .....	5.78%	6.63	6.27	NA
Differential Yield (AT&T-200 Stocks) .....	1.05%	-0.30	-0.43	NA

All data except July, 1951, AT&T common stock price taken from Moody's Public Utilities. July AT&T stock prices taken from daily quotations in the Wall Street Journal.

\* Average of daily closing price—July.

\*\* July—latest available comparative figures.

NA Not available.

The above tabulations indicate the trend from 1948 to 1950 and 1951 of the financial position of the Bell System on a consolidated basis. It will be noted that all indicators demonstrate an enhanced position from 1948 to 1950 except the raw stock price. When this is compared on a basis of yields with other companies (24 utility companies or 200 common stocks of all types of companies) the A.T.&T.

stock has shown a trend toward a lower *relative* yield, indicating an improved relative investment position. The same trends have continued into July and August of 1951 as indicated by the figures in the final column.

The investor viewing applicant's position in our previous rate proceedings would have noted that operating expenses per telephone were

## MICHIGAN PUBLIC SERVICE COMMISSION

increasing faster than revenues, reducing net income as follows:

Year	Operating Revenues Per Telephone	Expenses and Taxes	Net Income Per Telephone
1946 .....	\$71.62	\$61.85	\$9.77
1947 .....	67.44	62.03	5.41
1948 .....	71.14	65.40	5.74
1949 .....	75.35	67.36	7.99
1950 .....	79.96	68.54	11.42
1951 (Est.) ..	84.03	72.07	11.96

However, as indicated since 1948, operating revenues have increased 18 per cent, operating expenses and taxes 10 per cent, and net operating income 108 per cent, evidencing the substantial improvement in financial position experienced by applicant. Significantly, net operating income, after all operating expenses and taxes, is still increasing under present rates.

Present rates in effect are those authorized by our order of June 19, 1950, *supra*. That order followed a long and protracted hearing consuming twenty-nine days, with 3,722 pages of testimony and at which 128 exhibits containing several hundred pages were introduced. At that time we considered completely the costs of applicant's property, its financial structure, the sums required to meet operating expenses and probable earnings under the rates authorized. As a result thereof we fixed rates which we found to be "just and reasonable."

The instant application alleged that rate relief since our order of June 19, 1950, *supra*, was required because "... wage increases were negotiated in November, 1950, resulting in increasing intrastate expenses annually by some \$4,300,000; and income taxes have increased annually by about \$2,500,000. Other expenses

have increased considerably. Interest rates have increased . . . the fair return which is required to attract investors has substantially increased."

The evidence of record shows, as we have found, that after making allowances for all increases in operating expenses and taxes since June 19, 1950, applicant will realize in 1951 net intrastate operating income of approximately \$21,261,000 as compared with 1950 figures of \$19,050,000, or a net increase of \$2,211,000.

This net increase we find to be adequate to cover the slight rise in interest rates and the increase in the return on equity investment which we have found presently necessary. Under such circumstances we cannot find that applicant has sustained the burden of proving that the rates prescribed by our order of June 19, 1950, *supra*, have now become unjust and unreasonable. This application is therefore premature and the rate increases requested therein are hereby denied.

Applicant has argued that further increases in expenses, taxes, and costs of capital, not presently of record, will occur and that it ought not to be required to actually experience such increased costs before rate adjustment is permitted. We conclude otherwise. We know of no way of ascertaining the extent or effect of such hypothetical costs on applicant's income prior to the time they become actualities. Should this Commission prematurely permit rate increases not justified by subsequent cost increases, we are powerless under the statutes to recover any portion of such unjust rates for consumers of this state, Michigan Bell Teleph. Co. v. Public Service

RE MICHIGAN BELL TELEPHONE CO.

Commission (1946) 315 Mich 533, 66 PUR NS 287, 24 NW2d 200.

On the other hand, increased costs demonstrated to be reasonable and necessary may always be recouped through increased rates, Lansing v Public Service Commission (1951)

330 Mich 608, 612, 89 PUR NS 125, 48 NW2d 133.

Therefore, it is *ordered*:

That the Michigan Bell Telephone Company's application of May 14, 1951, to make effective increased rates, rentals, and charges, is hereby denied.

MAINE PUBLIC UTILITIES COMMISSION

Public Utilities Commission  
v.  
Portland Gas Light Company

F. C. No. 1381  
November 15, 1951

**A**PPPLICATION by gas company for authority to increase rates;  
approved in part and denied in part.

*Valuation, § 292 — Working capital — Assets and liabilities.*

1. Working capital allowance is not properly determined by merely deducting accounts receivable for merchandise sales from current assets without subtracting current liabilities, p. 157.

*Valuation, § 290 — Working capital — Relation to expense.*

2. Working capital allowance should be determined by adding to materials and supplies an allowance sufficient to cover about six weeks' operation and maintenance expenses, p. 157.

*Depreciation, § 22 — Gross revenue basis.*

3. It is improper for a utility to compute depreciation expense by taking 11½ per cent of gross revenue less maintenance, p. 158.

*Expenses, § 114 — Federal income taxes — New tax rate.*

4. An allowance for Federal income taxes should be computed by using a new tax rate, even though such rate was established subsequent to the termination of the hearing, p. 158.

*Rates, § 384 — Distribution of gas rate increase — Exclusion of wholesale customers.*

5. A gas utility may exempt large users from sharing the burden of a rate increase where these users have in the past decade received increases in excess of those passed on to most other users and where the company, with regard to wholesale customers, is in a tight competitive situation with other forms of fuel, p. 159.

## MAINE PUBLIC UTILITIES COMMISSION

### *Apportionment, § 30 — Gas expenses — Merchandising costs.*

Statement that a utility should effect a proper separation between expenses to be charged to utility operations and those chargeable to merchandising and jobbing (a nonoperating account), particularly in so far as expenses pertaining to the sale of appliances are concerned, p. 158.

### *Rates, § 303 — Fuel clauses — Objections.*

Statement that a fuel clause should not be allowed in a rate schedule since such a clause makes it extremely difficult for the customer to determine the proper rate and since the utility may, in the event of changes in fuel costs, invoke the Commission's assistance in authorizing a rate change, p. 159.

APPEARANCES: William S. Linnell, Portland, for Portland Gas Light Company; William H. O'Brien, Portland, pro se.

By the COMMISSION: Portland Gas Light Company, a corporation existing by law, is a "gas company" operating a "gas plant" as those terms are defined in Rev Stats Chap 40, § 15, serving customers in the cities of Portland, South Portland, and Westbrook and the town of Cape Elizabeth, all in the county of Cumberland and state of Maine. It is, therefore, a "public utility" within the meaning of said chapter. Rev Stats Chap 40, § 15, Par XXVI. As such public utility its rates are subject to regulation by this Commission in the manner prescribed in said chapter, as amended.

On July 23, 1951, Portland Gas Light Company issued and filed with this Commission a revision of its MPUC No. 9, Sheets, numbered 1 to 5, inclusive, thereby proposing certain general increases in its rate schedule as therein more particularly set forth, all to become effective September 1, 1951. The proposals would produce about \$92,000 in additional revenue, somewhat less than half of which would be retained by the com-

pany after the payment of additional taxes.

Acting under its statutory authority the Commission, by its order dated August 27, 1951, suspended the operation of said MPUC No. 9 for a period of three months from the date of said order "unless otherwise ordered," and on September 12, 1951, ordered a public hearing on said rates to be held at city hall in Portland, Maine, on September 26, 1951, at ten o'clock in the forenoon, Eastern Daylight Saving Time. Hearing was held accordingly, notice was proved to have been given as ordered, and appearances were entered as above noted.

In recent years the Commission has several times had occasion to consider the situation of this company with reference to its rates and it is therefore unnecessary at present to set forth herein as complete an analysis of the company's affairs as might otherwise seem necessary. See U No. 1709; FC No. 1251 ([1947] 69 PUR NS 154); FC No. 1264; FC No. 1273; FC No. 1298.

In support of its present proposal the company submitted the testimony of several witnesses and introduced a series of exhibits. In addition to the usual statistical and historical data, the exhibits show in condensed form

# PUBLIC UTIL. COMM. v. PORTLAND GAS LIGHT CO.

the financial results of operations for the year 1950, and the results of the first five months of operation of 1951, with an estimate of the results to be expected for the remaining five months under present rates and at current costs of labor, oil, and other production supplies. There is included also a comparison of estimated operational results for a hypothetical twelve months' period under present rates and at current cost levels with expected results for a similar twelve months' period at current cost levels, but with rates adjusted in accordance with the proposed schedules.

While these exhibits appear in general to be sound, there are certain respects in which we think them subject to adjustment as we shall hereinafter note.

## Rate Base

[1, 2] We differ from the company in its method of computing working capital. As shown by Exhibit 10, the company reached its figure of \$384,511 for 1951 net working capital by merely deducting its Accounts Receivable for Merchandise Sales from its Current Assets. Current Liabilities were not subtracted. It will be noted that current assets include inventory of appliances held for resale, residuals held for resale, and cash and accounts receivable for gas and prepaid accounts. Without deduction of corresponding and offsetting items of current liabilities we do not think a proper result is reached for inclusion in the rate base. In any event, we think a more realistic approach in determining the company's working capital needs is to add, as we have done in other cases, to materials and supplies for utility

operations, an allowance sufficient to cover about six weeks' operation and maintenance expenses. For the purposes of this case we compute, and find, the rate base as follows:

Operating Property 7/31/51 .....	\$3,748,295
Less Miscellaneous Intangibles ....	157,449
	<hr/>
	\$3,590,846
Less Depreciation Reserve .....	152,973
	<hr/>
Net Fixed Capital .....	\$3,437,873
Materials and Supplies ....	167,504
Less Merchandise held for resale .....	62,482
Less Residuals held for resale .....	3,802
	<hr/>
	101,220
	<hr/>
	\$3,539,093
Allowance for Cash Working Capital ( $\frac{1}{4}$ of operation and maintenance expense) .....	143,533
	<hr/>
Rate Base .....	\$3,682,626

## Operating Expenses

Increases in operating expenses, as shown in the evidence, and consequent decline in the company's return, have occasioned the rate filing now before us. On the basis of current cost levels, total operating expenses as estimated by the company for a twelve months' period amount to \$1,158,268, as appears from Exhibit 12. With certain exceptions which we shall mention, these estimates appear to be reasonable. It appeared at the hearing that an extraordinary and nonrecurring item entered into the 1951 figure for Relief and Welfare Account No. 716, upon which the company's twelve months' estimate of \$46,994 was based. The evidence indicates that this item should, for future estimates, be reduced about \$10,000.

Owing to the fact that the sale of gas and the sale of appliances are somewhat inextricably interwoven,

## MAINE PUBLIC UTILITIES COMMISSION

confusion exists as to a proper separation between expenses to be charged to utility operations and those which are properly chargeable to "Merchandise and Jobbing," a nonoperating account. Appliance salesmen's salaries are charged to Sales Promotion Expenses, while their commissions are charged to "Merchandise and Jobbing." The company contends that selling a gas stove is promoting the sale of gas. This statement is true so far as it goes; but the transaction also involves the sale of a gas stove—a nonutility operation. Hence, the expense of the appliance business should be divided between operating and nonoperating accounts. The difficulty is to ascertain the precise basis upon which such separation may be equitably effected. It appears that the appliances are displayed in showrooms that are also used as offices and that all the cost of this space, including maintenance and all taxes on such buildings, as well as advertising, are included by the company in its operating expenses. We think the handling of these and other items of Sales Promotion Expenses is subject to criticism and that when occasion demands it will be necessary for the Commission to go into the matter of effecting a more accurate separation. For purposes of the present case, however, the question becomes academic because it does not appear that the total Sales Promotion Expense of \$49,848 could be reduced sufficiently to result in the realization of an excessive rate of return from the rates which we shall authorize.

[3] Depreciation expense is computed by the company under a formula prescribed in its bond indenture. It

is  $11\frac{1}{2}$  per cent of gross revenue from gas sales less maintenance. As we have previously pointed out, this is not an appropriate means for determining depreciation for rate-making purposes. We do not adopt it; but it appears that the resulting depreciation expense estimate is not excessive when measured by reasonable and proper standards. Hence, we find no occasion to disallow any part of this item.

### *Estimated Revenues, Expenses, and Return*

[4] As appears from Exhibit 9, the company estimates gross revenue for a twelve months' period under the proposed rates at \$1,546,347, Operating Expenses at \$1,396,596, and Net Operating Revenues at \$149,751. This we shall adjust as indicated with reference to Account No. 716, Relief and Welfare. In Exhibit 10, the company's Gross Income figure for the period, amounting to \$149,751, is stated to be after deduction of "total taxes." Since total taxes include in the Federal income tax, the tax on income derived from merchandise sales and rentals, which do not constitute a part of operating revenue, and since local property taxes on merchandise held for resale are also included, though not a part of operating expenses, we shall exclude such items from operating expenses for the purpose of testing the proposed rates. Since the hearing, the Revenue Act of 1951, with its changes in the corporation income tax, has become law and our computations will take into account the new tax rate thereunder.

We have considered the company's estimates of additional revenue from

# PUBLIC UTIL. COMM. v. PORTLAND GAS LIGHT CO.

the proposed rates as set forth in Exhibit 8. These estimates appear to be reasonable, but we eliminate therefrom the sum of \$2,956 under "Large Industrial Customers," because we shall disallow the fuel clause proposed under Rate L. This we do, not because the total gross revenue would otherwise be excessive, but because of the objections to that particular type of rate which were reviewed at length in our former decision in FC 1251. Re Portland Gas Light Co. (1947) 69 PUR NS 154. If, however, changes in fuel costs are such that the company thinks it necessary, it may invoke some such procedure as that suggested in the final paragraph of our decision appearing on page 159 of 69 PUR NS.

Accordingly, the company's estimate of "Gross Income" is adjusted as follows:

Estimated Gross Income as reported	\$149,751
Add estimated Income tax (50% basis)	69,914
	<u>\$219,665</u>
(According to data furnished by the company under date of September 27, 1951 at the Commission's request)	
Deduct estimated Income tax (52% basis)	72,711
Estimated Gross Income, corrected	<u>\$146,954</u>
Increase in rate "L" disallowed	\$2,956
Less income tax 52%	1,537
	<u>1,419</u>
	<u>\$145,535</u>
Profit on Merchandise and Jobbing	14,873
Rent Income	2,396
	<u>\$17,269</u>
Federal income tax 52%	8,980
Reduction in Operation and Maintenance	10,000
Less Federal Income Tax	<u>5,200</u>
	<u>4,800</u>

City taxes on Merchandise	1,968
	<u>\$161,283</u>
Reduction on Rent deduction	\$8,086
Federal Income Tax	<u>4,205</u>
Adjusted Gross Income (Net Operating Revenue)	<u>\$157,078</u>

From the foregoing return and rate base, we conclude that the proposed rates, excluding the proposed change in Rate L, will not, under present conditions, or under any reasonably foreseeable conditions for the near future, produce more than a fair rate of return and hence that they are not excessive.

## Rates

[5] Nor have we been unmindful of the distribution of the rate burden among the several classes of customers. There appears to be no material inequity therein. Although no increase will be involved for the large users under Rate L in this particular case, a review of all rate increases from 1939 to date indicates that these users have in general received increases in excess of those passed on to most users. It must also be noted that, with regard to wholesale customers the company is in a tight competitive situation with other forms of fuel. It is conceivable that a major increase in the higher brackets of the rate schedule might accelerate a trend away from gas fuel that apparently has already started in the Portland area.

## Rent Deductions from Income

In Exhibit No. 9, Income Deductions are shown as \$79,288 in 1950 and estimated at \$80,156 for the future. These figures each include an

## MAINE PUBLIC UTILITIES COMMISSION

item of \$9,586 for Rent Deduction. This represents a sum paid annually by Portland Gas Light Company to Utilities Distributors, Inc. for the use of certain facilities, located at the plant of the latter corporation, for the storing, heating, and mixing of propane gas. The mixed propane is piped to the mains of the Portland Gas Light Company to supplement the supply of gas during emergencies or unusual peak loads. According to the terms of a contract negotiated several years ago, by the two corporations, a portion of this money is applied to the purchase of the facilities and equipment used for this purpose. Purchase will be completed by the close of 1951 and most of the above mentioned equipment will become the property of the Portland Gas Light Company. A new contract will be negotiated and the Gas Company officials estimate that the future annual payments for use of facilities at the plant of the Utilities Distributors, Inc., will be about \$1,500. Estimated Income Deductions should therefore be reduced from \$80,156 to \$72,070.

### BTU Content

Mr. William H. O'Brien, the only person who appeared in opposition to the proposed rates, expressed some uncertainty as to the actual BTU content of the gas which is billed to the customer on the basis of 577 BTU per

cubic foot, an increase of 10 per cent over the 525 BTU Standard Unit. In reference to this point we may say that we have caused the gas generating plant of Portland Gas Light Company to be visited by a representative of this Commission who reports that "operations there appear to be efficiently conducted. Accurate, continuous machine-made records of the quality of gas manufactured are available and the BTU content of gas is closely controlled." We have before us no evidence of impropriety in the quality of the gas or in the customer billing therefor. We accept the testimony of Mr. William H. Stover, treasurer of the company, that the BTU content of the gas as currently manufactured by the company is 577.

Upon consideration of all the evidence, it is

### *Ordered, adjudged and decreed*

(1) That Portland Gas Light Company's MPUC No. 9, Amended, Third Revised Sheets Numbers 1, 2, 3, and 5, filed with this Commission on July 23, 1951, are hereby approved and shall become effective on December 1, 1951.

(2) That Portland Gas Light Company's MPUC No. 9, Amended, Third Revision, Sheet Number 4 (Rate "L") is hereby disapproved and disallowed and shall be and become null, void, and of no effect.



# Industrial Progress

*A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.*



## Dayton Pwr. & Lt. Has \$38,000,000 Program

A \$38,000,000 expansion program for 1952-53 was announced in the 1951 annual report of The Dayton Power and Light Company. This expenditure added to the \$96,000,000 already invested will bring the company's postwar expansion to a total of \$134,000,000.

Kenneth C. Long, president of the company, in his message said that the huge increase in the company's facilities indicates, "our confidence in the continued prosperity of this area and our ability to care for all customers' needs whenever and wherever required."

In 1951 the fourth 60,000 kilowatt generator was added at the O. H. Hutchings generating station, and a new 30,000 kilowatt unit replaced a 30-year-old 20,000 kilowatt unit at the F. M. Tait station. The company now has a total generating capacity of 460,000 kilowatts which provide an ample reserve over anticipated requirements.

In 1951 the company received 19 per cent more natural gas than in 1950 and installed 121 miles of new gas mains. As a result, service was improved to existing customers and extended to 5,400 new customers.

## Booklet Describes Functions of Peter F. Loftus Corp.

JUST off the press is a handsomely illustrated booklet by the Peter F. Loftus Corporation Engineering Consultants of Pittsburgh, Pennsylvania.

The booklet describes the functions of the independent Consulting Engineering organization with its coordinated staffs of specialists trained in the various fields of engineering in relation to the planning and working out of modernization programs, new plant designs, expansions, etc. Many recently completed projects are pictured. Title of the booklet is "Coordinated Engineering Services."

## Idaho Power Expansion In '52 Set at \$10,000,000

IDAHO POWER COMPANY recently announced that its expansion budget for 1952 will be "upwards of \$10,000,000." This would raise construction expenditures since 1946 to nearly \$100,000,000.

Major project on next year's schedule is completion of the C. J. Strike dam and power plant on the Snake river near Mountain Home,

Idaho. The Strike installation now is 80 per cent finished, with the first of its three generators due to begin operation before the year-end. When the other two go in service the plant will have added 90,000 kilowatts to the system's total capacity.

The 1952 budget also includes \$2,000,000 for distribution lines and a like amount for transmission facilities.

## Niagara Mohawk to Spend \$64,500,000 in 1952

NIAGARA MOHAWK POWER CORPORATION spent \$57,000,000 for expansion last year and plans further expenditures of \$64,500,000 in 1952. The system will add more than a million kilowatts of electric generating capacity in the years 1946 through 1953.

Over 100 miles of natural gas transmission and distribution lines were constructed in 1951, and 196,000 customers were converted to natural gas.

## 516 Gas and Electric Companies Members of ASA

FIVE HUNDRED-SIXTEEN gas and electric companies and three industry associations now represent public utilities on the roster of national organizations holding membership in the American Standards Association. This was revealed in ASA's annual 1951 membership report released recently.

The American Gas Association, the Edison Electric Institute and the Association of Edison Illuminating Companies are member-bodies of the association.

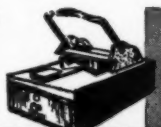
ASA announced that it approved 113 American Standards in 1951, bringing the total number of new and revised American Standards in effect to 1,181. Newly approved American Standards of particular interest to public utilities included: Approval Requirements for Central Heating Gas Appliances, Z21.13-1951; Approval Requirements for Gas Unit Heaters, Z21.16-1951; Listing Requirements for Auto-

(Continued on page 26)

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matic Pilots, Z21.20-1951; National Electrical Code, C1-1951; 27 standards on specifications for fluorescent lamps; Acoustical Terminology, Z24.1-1951; 23 standards for electrical conductors; and Capacitor Units, C55.1-1951.

### Calapco to Build \$24,000,000 Plant

PLANS for construction of a new 200,000 kilowatt steam generating plant near Redrock in southern Pinal county have been announced by Central Arizona Light and Power Company.

The \$24,000,000 plant will considerably bolster the power supply for electric customers of Arizona Public Service Company, new utility to be formed in March under merger of

Calapco with Arizona Edison Company, Inc.

An open air installation, the modern plant will eventually house two 100,000 kilowatt units. These will be the largest such power producing facilities in the state.

First unit will go into operation in the spring of 1954. The second is scheduled for completion late the following year.

### Utah Pwr. & Lt. to Spend \$16,500,000 on Construction

UTAH POWER & LIGHT plans to spend \$16,500,000 for construction of additional electric facilities this year, approximately \$1,000,000 more than was spent in 1951, according to George M. Gadsby, president.

Generating capacity at the end of 1951 aggregated 331,350 kilowatts, with 66,000 kilowatts installed during the year.

### Fenwal Publishes New Thermoswitch Catalog

A NEW 52-page catalog on Thermoswitch temperature controls has been published by Fenwal Incorporated. The catalog describes the design, operating characteristics and installation of each of the 10 variations on the basic Fenwal thermostatic device. A special section concerning the selection and application of the Thermoswitch discusses such

(Continued on page 28)

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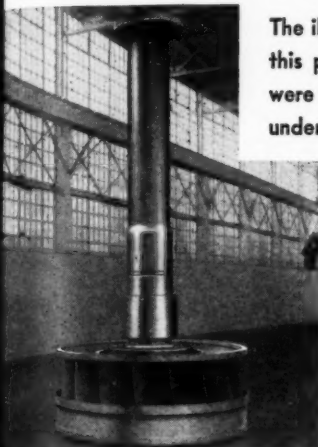
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# LEFFEL Hydraulic Turbines

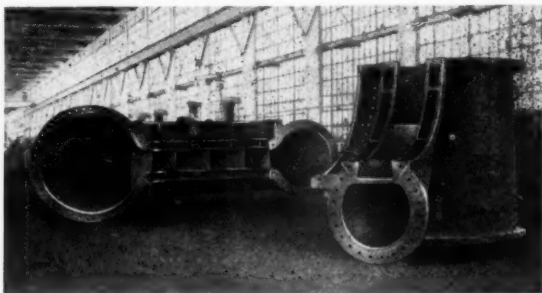
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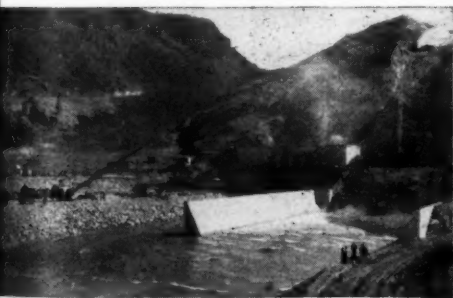
The illustrations below show a typical Leffel production job. For this particular installation two identical Francis type turbines were produced. Each has a maximum rating of 28,250 h.p., under 324 ft. net head, speed 277 r.p.m.



Runner and shaft, assembled in the Leffel plant.



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subjects as operating differential, sensitivity, temperature variation, lag and overshoot, characteristics of heat sources, frequency of switching and installation in solids, liquids and gases.

Copies of Fenwal catalog No. 400 may be obtained by writing Fenwal Incorporated, Ashland, Mass.

### Consumers Power to Spend \$53,000,000 in 1952

**C**ONSUMERS POWER COMPANY's postwar electric and natural gas expansion program, exceeding a quarter billion dollars, will involve record construction expenditures of \$53,000,000 in 1952, according to Justin R. Whiting, chairman of the board.

More than 400,000 kilowatts in added steam-electric generating capacity are currently being developed to raise the company's system capacity to 1,500,000 kilowatts, or more than double the total at the end of World War II.

Natural gas sendout reached a new daily peak of 247,000,000 cu. ft. on December 16th, supplied principally from the 47,000 acre underground storage fields of the company's subsidiary, Michigan Gas Storage Company. Gas construction expenditures of \$11,000,000 are scheduled for 1952 to provide additional transmission, pumping and regulating facilities.

The company now supplies more than 1,000,000 electric and gas customers and expects to add 33,000 in 1952.

### Micro-wave Radio System Described by G-E Official

**M**ICROWAVE radio systems for pipeline and power utilities, which use only one per cent of the critical copper necessary to provide similar service by conventional telephone lines, were described recently by a General Electric Company official.

Addressing a meeting of the Southwest Region of Interconnected Power Systems group committee, Walter E. Sutter, a G-E microwave specialist from Syracuse, New York, said that a 1000-mile six-channel communications system would require 30,000 to 40,000 pounds of copper if done by microwave, and more than 3,000,000 pounds if done by open wire pole lines. He added that the microwave system would cost about half as much as the telephone system.

Microwave systems, he explained, use extremely high frequency radar-like radio beams to provide communication between points on a line of sight path. A succession of automatic repeater stations can relay signals over unlimited distances.

In addition to voice communications, signals can be sent over these systems to start and stop engines, read meters, open and close valves, control pressures, etc., he said.

The G-E official said that about 15,000 miles of microwave relay systems are currently in operation or under construction for some 20 oil and gas pipeline corporations and other utilities.

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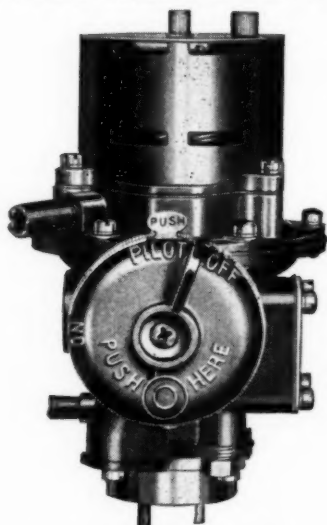
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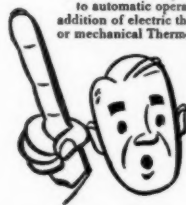
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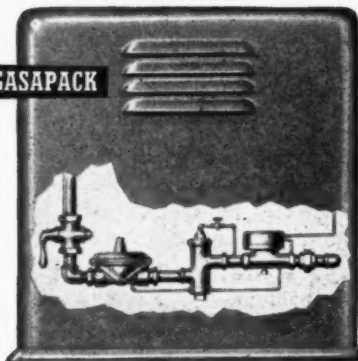
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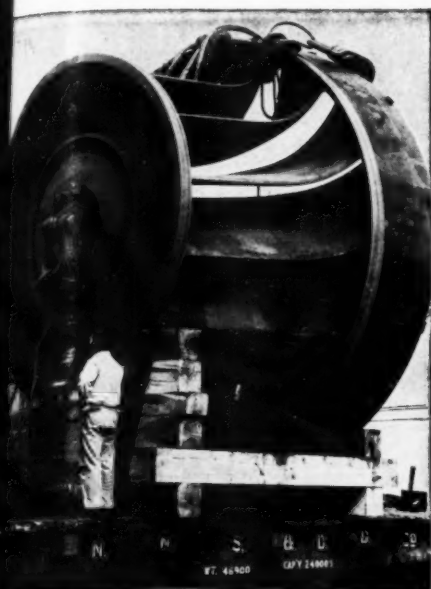
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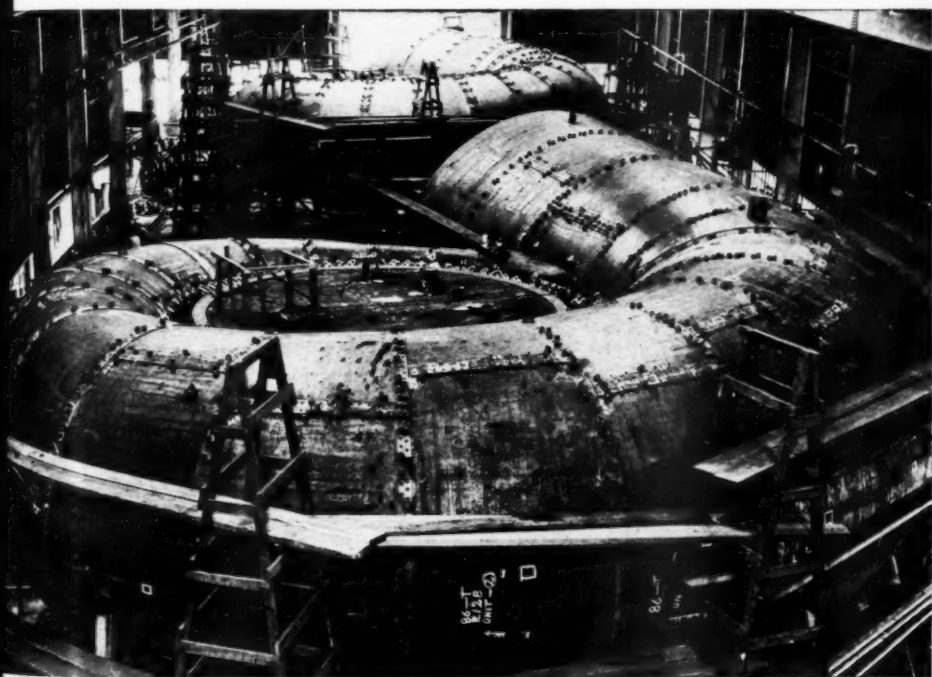
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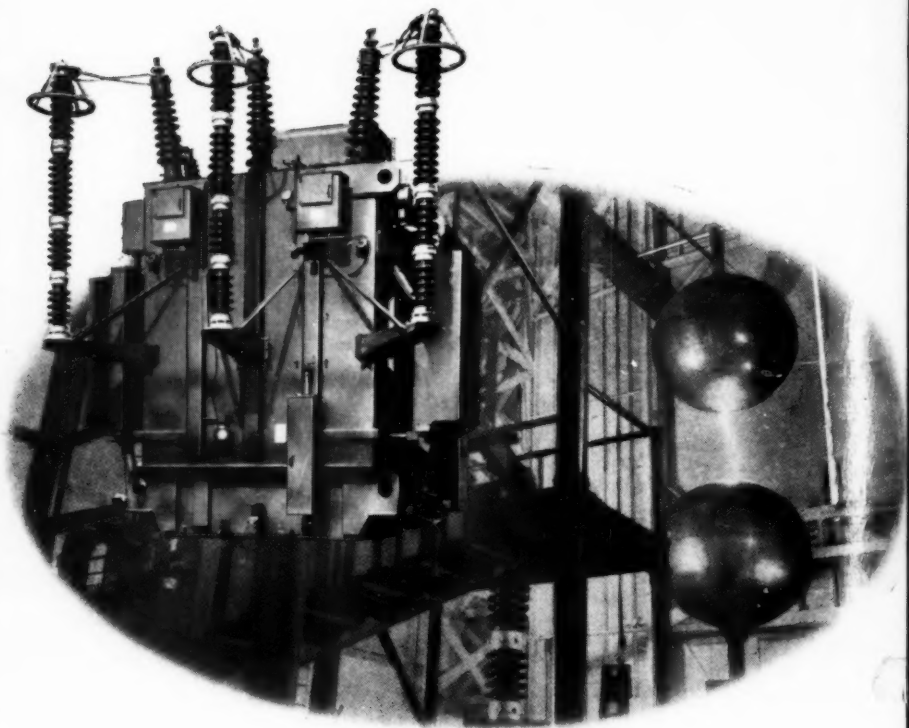


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